N A C D S

1984 NACDS-LILLY DIGEST

A Survey of Chain Pharmacy Operations for 1983

A summary of the 1983 operations of
1,203 chain pharmacies

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Foreword

The fourteenth edition of the NACDS-LILLY DIGEST summarizes the operating statistics of 1,203 chain pharmacies. The primary purpose of the DIGEST is to provide useful information so that pharmacy managers can compare and evaluate individual store performance and, when appropriate, initiate action for improvement. The majority of pharmacies included in the DIGEST belong to chains with 100 or more units.

Because of diversity within the industry, units must be grouped according to some recognized operating variables if their data are to be used for purposes of comparison. The section entitled "Chain Pharmacy Operations—1983" on pages 4 and 5 offers an overview of the industry. The "Heart of the NACDS-LILLY DIGEST" (pages 21 through 27) is the "working section" of the DIGEST and presents average operating statistics to permit evaluations of chain units at various levels of sales and prescription activity. Further classification of chain drugstores by unit size, pharmacy location, and geographic region supplies store management with additional means of assessing an individual pharmacy's performance.

Eli Lilly and Company is pleased to provide this publication for the chain drug industry. The cooperation of the National Association of Chain Drug Stores, Inc., its board of directors, and, especially, the participating members has made this edition possible.

Acknowledgement

The National Association of Chain Drug Stores, Inc., is proud to share in the publication of the NACDS-LILLY DIGEST. *The* DIGEST *has proved its worth as a valuable financial management tool and has been widely accepted as an accurate and comprehensive report of the industry operating statistics.*

Robert J. Bolger, *President*
National Association of Chain Drug Stores, Inc.

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Chain Pharmacy Operations 1983

The average NACDS-LILLY DIGEST pharmacy reported higher total sales during 1983 and showed a slight increase in the number of prescriptions dispensed (Table 1). Since the increase in sales volume was accompanied by a rise in the cost-of-goods-sold percentage, the gross margin fell to 28.6% of sales. Total expenses increased both in dollars and as a percent of sales, with the result that net profit declined 3.3% from the 1982 level to 5.1% of sales.

A new sales record was established in 1983 as the 1,203 participating stores averaged just under $2,000,000, a 1.7% growth over the previous year's figure. The growth rate was, however, lower than the average annual growth rate of 6.9% for the last decade. The increase in total sales was the result of the large rise in prescription revenue (up 12.5%), which more than offset the small decline in other sales.

Prescription income contributed a greater share of total sales dollars during 1983 (up from 21.5% to 23.7%). This improvement was the result of an 0.4% increase in total prescriptions dispensed accompanied by a $1.15 rise in the average prescription charge. Prescription sales productivity per square foot advanced 12.5% to $1,162.48, whereas productivity for the nonprescription area rose 10.8% to $197.58 per square foot. Total sales per square foot showed a 14.2% gain over the 1982 figure to $243.90.

The total wage package (manager's salary plus employees' wages) typically represents the greatest share of total expenses; therefore, control of its cost is a management priority. During 1983, this expense increased slightly (from 23.4% to 23.5% of sales). Dollarwise, the increase in the employees' portion of the total wage package was only $66 when compared with the 1982 figure. This insignificant increase may be explained, in part, by a decline in pharmacy hours open per week and employed pharmacist hours worked per week of one and two hours respectively.

Miscellaneous operating expenses (shown within the braces in Table 1) showed an increase both in dollars and as a percent of sales—moving from 10.3% of sales in 1982 to 10.5% during 1983. Although greater dollar amounts were reported, no significant changes occurred in utilities, insurance, advertising, supplies, headquarters fee, and all other direct store expenses when expressed as percents of sales.

Rent declined slightly to 2.5% of sales for 1983. Dollarwise, pharmacies posted an 0.6% reduction in rental expense from that for the previous year. However, the average rental expenditure rose to $6.28 per square foot as compared with $5.41 in 1982. This was the first year that rent per square foot was above the $6.00 level.

The average floor area per store decreased 14.3%, from 9,248 square feet in 1982 to 7,925 square feet. This appears to reflect an increase in the number of smaller-sized pharmacy operations, such as leased pharmacy departments and medical office building units, reporting their data to the DIGEST. Total sales per square foot continued the overall uptrend that began more than a decade ago. The 1983 figure of $243.90 is 14.2%, or $30.29, more than the amount reported the previous year.

Total inventory attained a record dollar level during 1983 (close to $285,000). As a percent of sales, it increased slightly to 14.3% of sales; consequently, inventory turnover declined from 5.2 to 5.1 times. Sales per dollar invested in prescription inventory continued to increase, up from $11.44 to $11.84. Sales per dollar of nonprescription merchandise decreased somewhat, as shown by a 2.4% loss—down from $6.37 to $6.22.

Prescription activity advanced slightly from the level reported in last year's NACDS-LILLY DIGEST. The number of prescriptions dispensed totaled 43,967, an 0.4% increase from the 1982 figure. The ratio of new prescriptions to total prescriptions declined from 52.3% to 52.0% as fewer new prescriptions were dispensed. Renewals, however, increased sufficiently to offset this loss, which resulted in a net gain in the number of total prescriptions dispensed. The average prescription charge advanced 12.0% during 1983, from $9.62 to $10.77. This was the first year that the average prescription charge exceeded $10.00.

TABLE 1

Current trends in chain pharmacy operations

AVERAGES PER PHARMACY	1983 (1,203 Pharmacies)	1982 (1,228 Pharmacies)	Amount and Percent of Change
Sales			
Prescription	$ 473,647— 23.7%	$ 421,149— 21.5%	+$ 52,498—12.5%
Other	1,521,719— 76.3%	1,541,068— 78.5%	−$ 19,349— 1.3%
Total	$1,995,366—100.0%	$1,962,217—100.0%	+$ 33,149— 1.7%
Cost of goods sold	1,424,453— 71.4%	1,397,909— 71.2%	+$ 26,544— 1.9%
Gross margin	$ 570,913— 28.6%	$ 564,308— 28.8%	+$ 6,605— 1.2%
Expenses			
Manager's salary	$ 31,827— 1.6%	$ 30,312— 1.5%	+$ 1,515— 5.0%
Employees' wages	177,318— 8.9%	177,252— 9.0%	+$ 66— 0.0%
Rent	49,768— 2.5%	50,049— 2.6%	−$ 281— 0.6%
Utilities (including telephone)	22,277— 1.1%	21,569— 1.1%	+$ 708— 3.3%
Insurance, licenses, and taxes (except on profit)	32,141— 1.6%	29,780— 1.5%	+$ 2,361— 7.9%
Repairs	6,192— 0.3%	6,307— 0.3%	−$ 115— 1.8%
Advertising	33,055— 1.7%	33,049— 1.7%	+$ 6— 0.0%
Depreciation (except on buildings)	11,507— 0.6%	11,742— 0.6%	−$ 235— 2.0%
Supplies	10,725— 0.5%	10,316— 0.5%	+$ 409— 4.0%
Headquarters fee	58,050— 2.9%	55,644— 2.9%	+$ 2,406— 4.3%
All other direct store expenses	35,956— 1.8%	32,682— 1.7%	+$ 3,274—10.0%
	10.5%	10.3%	
Total expenses	$ 468,816— 23.5%	$ 458,702— 23.4%	+$ 10,114— 2.2%
Net profit (before taxes)	$ 102,097— 5.1%	$ 105,606— 5.4%	−$ 3,509— 3.3%
Warehouse fee*	$ 32,417— 2.4%	$ 23,857— 2.3%	+$ 8,560—35.9%
As a percent of cost of goods sold	3.3%	3.2%	
Value of inventory at cost and as a percent of sales			
Prescription	$ 40,011— 8.4%	$ 36,805— 8.7%	+$ 3,206— 8.7%
Other	244,605— 16.1%	241,856— 15.7%	+$ 2,749— 1.1%
Total	$ 284,616— 14.3%	$ 278,661— 14.2%	+$ 5,955— 2.1%
Annual rate of turnover of inventory	5.1 times	5.2 times	
Size of area*	sq. ft.	sq. ft.	
Prescription	424— 5.4%	426— 4.6%	— 2— 0.5%
Other	7,501— 94.6%	8,822— 95.4%	— 1,321—15.0%
Total	7,925—100.0%	9,248—100.0%	— 1,323—14.3%
Sales per square foot*			
Prescription	$1,162.48	$944.39	+$ 118.09—12.5%
Other	197.58	178.35	+$ 19.23—10.8%
Total	243.90	213.61	+$ 30.29—14.2%
Sales per dollar invested in inventory			
Prescription	$11.84	$11.44	+$ 0.40— 3.5%
Other	6.22	6.37	−$ 0.15— 2.4%
Net profit per dollar invested in inventory	$0.359	$0.379	−$ 0.020— 5.3%
Number of prescriptions dispensed			
New	22,882— 52.0%	22,903— 52.3%	— 21— 0.1%
Renewed	21,085— 48.0%	20,877— 47.7%	+ 208— 1.0%
Total	43,967—100.0%	43,780—100.0%	+ 187— 0.4%
Prescription charge	$10.77	$9.62	+$ 1.15—12.0%
Number of hours per week			
Pharmacy was open	80 hours	81 hours	— 1— 1.2%
Worked by manager	46 hours	46 hours	no change
Worked by employed pharmacist(s)	70 hours	72 hours	— 2— 2.8%

*Based on averages of pharmacies that reported all data

Sales and Expenses

Greater sales volume is a primary management objective and normally is viewed as an indication of managerial success. Of equal significance, however, is the behavior of various costs and expenses as sales volume increases. Efficient control over these operating costs is critical, since growing sales volume alone is no guarantee of a profitable chain unit.

Chart 1 and Table 2 depict how selected operating statistics vary according to sales volume. Although sales volume is a major determinant of a chain pharmacy's financial data, it is important to recognize that the characteristics of an individual unit, for instance, location, degree of personal service, and sales mix, also may have an impact on these figures. NACDS-LILLY DIGEST averages are adjusted to exclude refunds, sales tax collections, allowances to customers, and returns. The cost of goods sold is adjusted for discounts received, warehouse fees, and freight charges.

Chart 1 shows that as total sales rise, gross margin and total expenses generally decrease percentagewise. However, total expenses decline at a faster rate than does gross margin, with the result that net profit is larger for units in the higher sales categories. Net profit (gross margin less total expenses) is represented by the shaded area.

As Table 2 indicates, larger operations were generally more profitable than smaller ones and demonstrated "economies of scale" in various operating costs.

Chain pharmacy units with total sales volume under $500,000 differ substantially from higher-volume operations. Although some stores in the lowest category are newly opened outlets in which sales have yet to reach their full potential, most are probably smaller established firms that are experiencing losses due to changing markets or new competition. In both situations, expenses in relation to sales are extremely high. The future prospects for these stores should be carefully assessed with awareness of local conditions.

Gross Margin

As sales increase, gross margin declines from 33.9% of sales in the lowest category (sales less than $500,000) to 26.8% for stores reporting over $3,000,000 in annual revenue (Table 2). One factor contributing to the decline in gross margin may be the gradual reduction in the ratio of prescription sales to total sales even though there is an uptrend in prescription income. Prescription sales range from 62.0% of sales in stores with less than $500,000 in total sales to 16.4% in units with the largest volume. Pharmacy units with greater sales activity also post the fastest inventory turnover rates. Higher turnover is accompanied by better cash flow, less dependence on debt, and a reduced storage space requirement. It appears that managers of these units tend to adopt aggressive price strategies as long as inventory turnover is sufficiently high and expenses are properly controlled so that the desired return on investment is realized. It has been suggested that higher-volume stores are located in areas where there is intense price competition, which undoubtedly affects gross margin.

Expenses

Total expenses decline from 36.7% of sales in units with sales under $500,000 to 19.7% in outlets reporting over $3,000,000 in sales (Table 2). Consequently, in the largest sales group, net profit is highest—7.1% of sales before taxes. Primarily responsible for the downtrend in total expenses is the total wage package (manager's salary plus employees' wages). As sales rise, improved employee productivity is demonstrated by the steady decrease in the total wage package, from 17.2% to 8.8% of sales.

Effective management control is also exhibited by an overall reduction in miscellaneous operating expenses (all costs except salaries, wages, and rent), which declined from 13.7% of sales in the lowest sales category to 8.7% in the highest. It is important to remember that several of these expenses are fixed or semivariable and normally would be expected to decrease percentagewise as sales rise. Nonetheless, this relationship between sales and expenses points out the need for constant monitoring since, collectively, miscellaneous costs have a definite impact on net profit.

Rent expenditures decline as sales rise—from 5.8% of sales in the lowest sales category to 2.2% in the largest. This trend reflects the relatively fixed nature of rent expense. Dollarwise, the average

CHART

1

Selected operating statistics according to sales volume

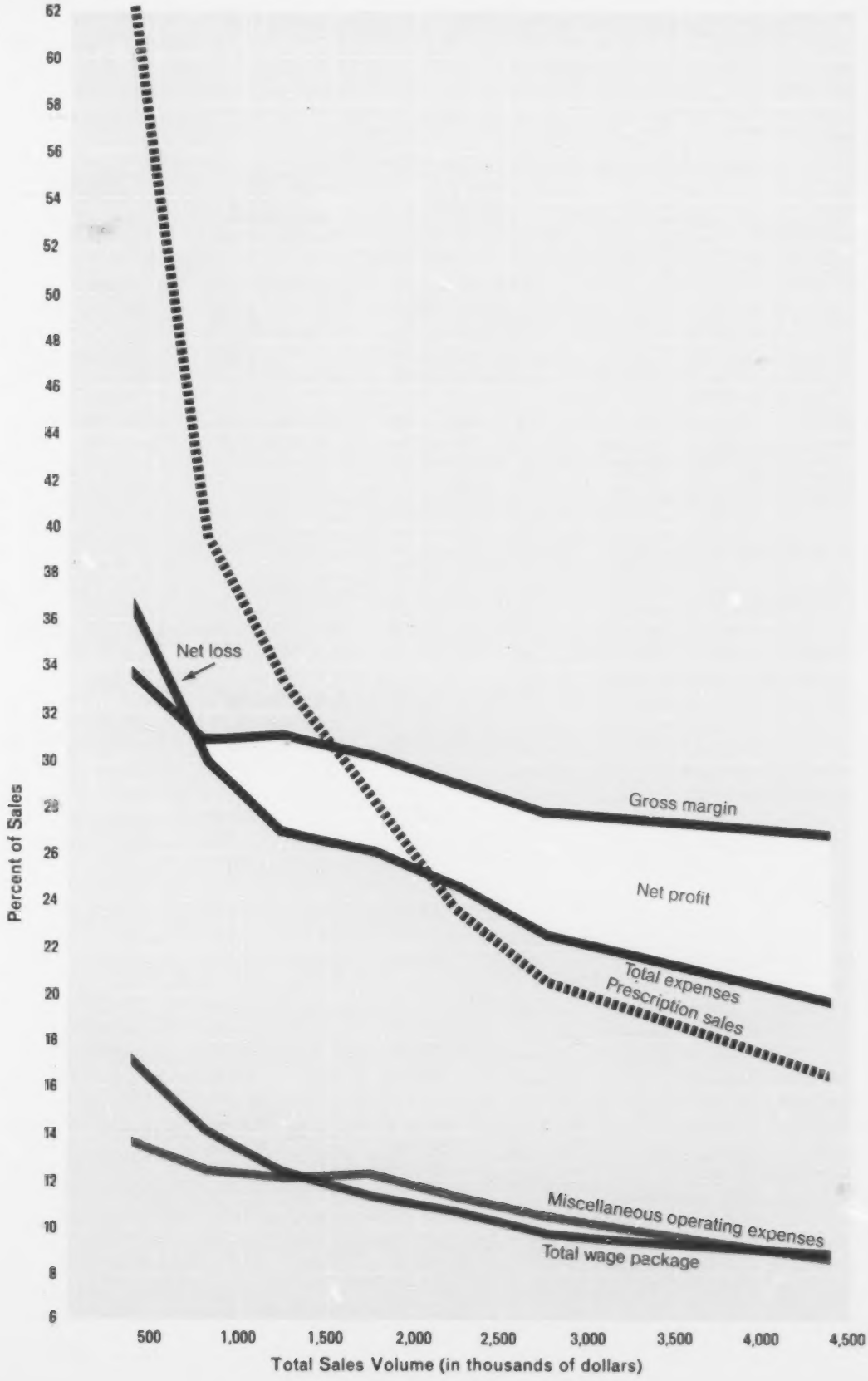


TABLE 2

Chain operations according to sales volume

AVERAGES PER PHARMACY	Total Sales under $500,000 (103 Pharmacies)	Total Sales $500,000 to $1,000,000 (195 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (217 Pharmacies)
Sales			
Prescription	$213,103— 62.0%	$307,805— 39.3%	$ 413,877— 33.3%
Other	130,814— 38.0%	475,601— 60.7%	827,224— 66.7%
Total	$343,917—100.0%	$783,406—100.0%	$1,241,101—100.0%
Cost of goods sold	227,196— 66.1%	541,724— 69.2%	853,648— 68.8%
Gross margin	$116,721— 33.9%	$241,682— 30.8%	$ 387,453— 31.2%
Expenses			
Manager's salary	$ 28,674— 8.3%	$ 30,369— 3.9%	$ 29,488— 2.4%
Employees' wages	30,659— 8.9%	80,538— 10.3%	124,105— 10.0%
Rent	20,095— 5.8%	26,189— 3.3%	31,322— 2.5%
Utilities (including telephone)	4,141— 1.2%	11,200— 1.4%	15,663— 1.3%
Insurance, licenses, and taxes (except on profit)	3,295— 1.0%	13,774— 1.8%	21,559— 1.7%
Repairs	699— 0.2%	2,593— 0.3%	4,529— 0.4%
Advertising	4,103— 1.2%	15,355— 1.9%	24,452— 2.0%
Depreciation (except on buildings)	2,868— 0.8%	5,616— 0.7%	6,967— 0.5%
Supplies	2,280— 0.7%	5,967— 0.8%	8,454— 0.7%
Headquarters fee	12,905— 3.7%	24,343— 3.1%	47,474— 3.8%
All other direct store expenses	16,770— 4.9%	19,338— 2.5%	21,589— 1.7%
	13.7%	12.5%	12.1%
Total expenses	$126,489— 36.7%	$235,282— 30.0%	$ 335,602— 27.0%
Net profit (before taxes)	($ 9,768— 2.8%)	$ 6,400— 0.8%	$ 51,851— 4.2%
Value of inventory at cost and as a percent of sales			
Prescription	$ 28,828— 13.5%	$ 34,412— 11.2%	$ 36,994— 8.9%
Other	72,317— 55.3%	117,835— 24.5%	161,242— 19.5%
Total	$101,145— 29.4%	$152,247— 19.4%	$ 198,236— 16.0%
Annual rate of turnover of inventory	2.3 times	3.5 times	4.4 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	346 $621.80	413 $745.29	375 $1,076.33
Other	1,458 68.67	4,731 100.53	6,468 128.48
Total	1,804 190.95	5,144 152.04	6,843 180.48
Sales per dollar invested in inventory			
Prescription	$7.39	$8.94	$11.19
Other	1.81	4.04	5.13
Net profit per dollar invested in inventory	($0.100)	$0.042	$0.260
Number of prescriptions dispensed			
New	10,099— 53.9%	14,225— 50.0%	19,050— 49.5%
Renewed	8,640— 46.1%	14,211— 50.0%	19,458— 50.5%
Total	18,739—100.0%	28,436—100.0%	38,508—100.0%
Prescription charge	$11.37	$10.82	$10.75
Number of hours per week			
Pharmacy was open	58 hours	75 hours	81 hours
Worked by manager	45 hours	46 hours	46 hours
Worked by employed pharmacist(s)	20 hours	49 hours	63 hours

*Based on averages of pharmacies that reported all data

Total Sales $1,500,000 to $2,000,000 (200 Pharmacies)	Total Sales $2,000,000 to $2,500,000 (154 Pharmacies)	Total Sales $2,500,000 to $3,000,000 (128 Pharmacies)	Total Sales over $3,000,000 (206 Pharmacies)
$ 489,310— 28.2%	$ 527,284— 23.5%	$ 557,301— 20.4%	$ 716,586— 16.4%
1,243,781— 71.8%	1,714,891— 76.5%	2,168,966— 79.6%	3,662,266— 83.6%
$1,733,091—100.0%	$2,242,175—100.0%	$2,726,267—100.0%	$4,378,852—100.0%
1,208,824— 69.7%	1,592,942— 71.0%	1,970,010— 72.3%	3,204,362— 73.2%
$ 524,267— 30.3%	$ 649,233— 29.0%	$ 756,257— 27.7%	$1,174,490— 26.8%
$ 29,683— 1.7%	$ 32,060— 1.4%	$ 30,485— 1.1%	$ 39,991— 0.9%
165,783— 9.6%	209,220— 9.3%	238,137— 8.7%	347,872— 7.9%
45,465— 2.6%	58,393— 2.6%	65,405— 2.4%	94,366— 2.2%
20,967— 1.2%	28,465— 1.3%	31,446— 1.2%	39,749— 0.9%
28,615— 1.7%	38,633— 1.7%	41,598— 1.5%	67,791— 1.5%
6,713— 0.4%	7,513— 0.4%	7,535— 0.3%	11,770— 0.3%
35,185— 2.0%	39,758— 1.8%	41,686— 1.5%	60,907— 1.4%
11,187— 0.7%	11,454— 0.5%	16,842— 0.6%	23,222— 0.5%
9,925— 0.6%	11,661— 0.5%	13,846— 0.5%	19,980— 0.5%
65,855— 3.8%	71,846— 3.2%	76,681— 2.8%	94,204— 2.2%
33,751— 1.9%	43,019— 1.9%	53,215— 2.0%	62,549— 1.4%
12.3%	11.3%	10.4%	8.7%
$ 453,129— 26.2%	$ 552,022— 24.6%	$ 616,876— 22.6%	$ 862,401— 19.7%
$ 71,138— 4.1%	$ 97,211— 4.4%	$ 139,381— 5.1%	$ 312,089— 7.1%
$ 41,953— 8.6%	$ 42,057— 8.0%	$ 43,315— 7.8%	$ 48,613— 6.8%
229,008— 18.4%	290,908— 17.0%	324,050— 14.9%	469,726— 12.8%
$ 270,961— 15.6%	$ 332,965— 14.9%	$ 367,365— 13.5%	$ 518,339— 11.8%
4.6 times	4.9 times	5.5 times	6.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
390 $1,186.10	529 $936.51	468 $1,125.21	485 $1,486.56
7,675 164.55	9,528 184.11	9,635 226.73	12,834 295.77
8,065 213.98	10,057 223.65	10,103 268.39	13,319 339.15
$11.66	$12.54	$12.87	$14.74
5.43	5.89	6.69	7.80
$0.260	$0.290	$0.380	$0.600
22,916— 50.4%	25,831— 52.5%	27,910— 52.8%	36,148— 54.7%
22,579— 49.6%	23,366— 47.5%	24,945— 47.2%	29,970— 45.3%
45,495—100.0%	49,197—100.0%	52,855—100.0%	66,118—100.0%
$10.76	$10.72	$10.54	$10.84
82 hours	85 hours	85 hours	85 hours
46 hours	46 hours	46 hours	46 hours
73 hours	78 hours	80 hours	97 hours

rent expenditure moved upward, from over $20,000 to more than $94,000, as sales advanced. For a more detailed analysis of rental expense, the section entitled "Rent Review" that appears on pages 30 and 31 may be a helpful reference.

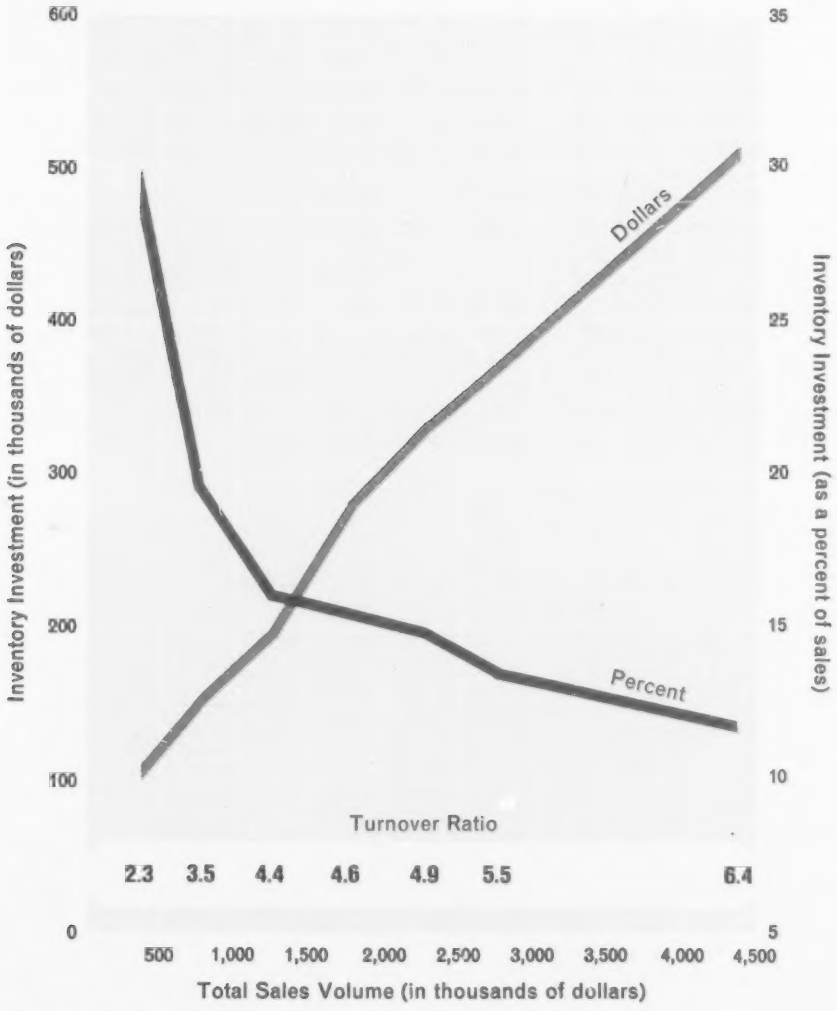
Inventory

Effective utilization of a store's assets to gain the greatest return on investment is a major managerial objective. Inventory usually represents the largest dollar asset and is directly affected by daily management decisions. The relationship between inventory and sales is illustrated in Chart 2. As sales rise, inventory dollars increase (from about $101,000 in the lowest sales group to over $518,000 in the highest) although, percentagewise, inventory investment declines from 29.4% to 11.8% of sales. This downward movement of inventory as a percent of sales reflects greater productivity. An upward trend is noted in the inventory turnover rate and net profit per dollar invested in inventory as sales progress; both peak when volume totals over $3,000,000. This sales category attained the highest turnover rate at 6.4 times and the highest net profit per dollar of inventory (60 cents). Overall, inventory turnover rate ranged from 2.3 times in stores with the lowest sales volume to 6.4 times in those with the highest. Net profit per dollar of inventory moved from a loss in pharmacies with income under $500,000 to 60 cents in the largest outlets.

Changes in accounting procedures for inventory valuations were not taken into consideration here; nevertheless, the reported trends should be representative of current practices.

CHART 2

Inventory investment according to sales volume



Prescription Department Review

Chain pharmacies participating in the NACDS-LILLY DIGEST reported a greater number of prescriptions dispensed during 1983 than in 1982 (Chart 3). This increase reversed an earlier downtrend. Since the higher level of prescription activity was accompanied by a higher average prescription charge, prescription revenue rose a substantial 12.5% in dollars over the 1982 figure. As a share of total sales, prescription income advanced to a record 23.7%. The average prescription charge is influenced by product mix, the number of doses dispensed, merchandise costs, and dispensing costs; consequently, it is not an accurate measure of prescription drug prices.

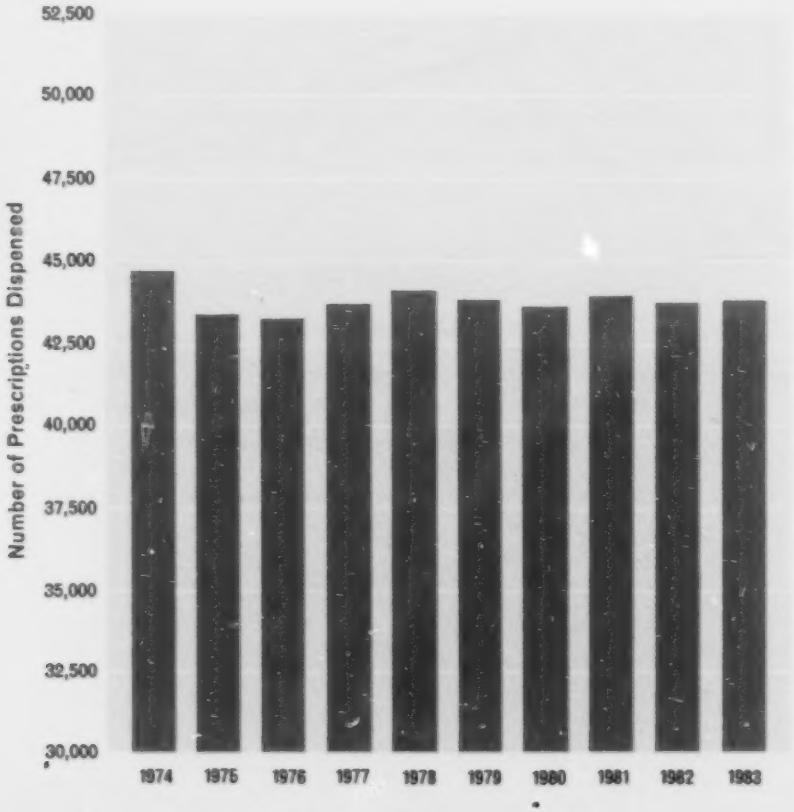
The impact of daily prescription activity on operating statistics is presented in Tables 3 and 4, and the relationship between daily prescription activity, annual sales volume, and employed pharmacist hours is shown in Chart 4 and Table 3. As would be expected, when both sales and daily prescription activity grow, the number of store hours open and the hours worked by employed pharmacists also move upward. However, employed pharmacist hours do not increase proportionately with greater prescription demand and total sales (Chart 4). For example, the larger-volume operations were able to generate about seven times the number of prescriptions with about twice the number of employed pharmacist hours as compared with data for stores in the smallest sales category (Table 3). Such increased productivity may be achieved by the use of nonlicensed personnel and/or mechanical aids in the prescription department. This also may partially explain the uptrend in the number of prescriptions dispensed per employed pharmacist hour worked as sales volume advances.

Chart 5 graphically summarizes some of the major operating statistics found in Table 3. Since there is a direct correlation between sales volume and daily prescription activity, the overall operating trends are similar to those shown in Chart 1 on page 7. As prescription activity increases, total expenses decline faster as a percent of sales than does gross margin, which results in a higher net profit for stores with greater prescription activity—8.0% of sales in comparison with a loss in the smallest sales group (Table 3). As mentioned in previous editions of the NACDS-LILLY DIGEST, when prescription activity increases, the average prescription charge shows an overall downward trend.

The dollar investment in prescription inventory is greater for stores dispensing over 200 prescriptions daily ($62,976) than for those filling fewer than 50 prescriptions per day ($25,955) (Table 3).

CHART 3

Total number of prescriptions dispensed



However, when prescription inventory investment is expressed as a percent of sales, the lowest sales group reported a stock investment of 16.9% as compared with 6.5% in the highest. Another measure of prescription inventory utilization and productivity is prescription sales per dollar of prescription inventory. The trend for this index shows (Chart 5 and Table 3) a greater sales dollar return as daily prescription activity increases, with prescription sales per dollar invested in inventory advancing from $5.91 to $15.36.

Table 4 separates chain stores according to prescription income as a percent of sales. In contrast to Table 3, as the ratio of prescription revenue to total sales increases, total sales and square footage decline. Pharmacies with a large proportion of prescription sales also realize a greater gross margin percentagewise. Total expenses, although higher, tend to increase more slowly than gross margin; therefore, such prescription-oriented stores generally earn a larger net profit. The increase in total expenses as prescription sales advance is accompanied by a larger total wage package expense, as a percent of sales, which suggests a heavy reliance on professional personnel. This is understandable, since pharmacists are needed to meet the demand of greater prescription activity.

The average prescription charge varies among stores whose prescription revenue is less than 50% of sales but rises when prescription income exceeds half of all sales. The total number of hours the pharmacy was open per week and the hours worked by employed pharmacists were lowest in those outlets with the highest prescription income percentage.

The relationship between the number of prescriptions dispensed and employed pharmacist hours provides another interesting aspect of pharmacist productivity. To calculate this ratio, the amount of time the manager spends in the prescription department as opposed to managerial time was estimated; data in Table 3 were used as a resource. Prescriptions dispensed per employed pharmacist hour rose dramatically—from 3.7 in stores with the lowest prescription activity to 13.3 in the highest. The ratio improved in all categories of prescription activity when compared with the 1982 figures.

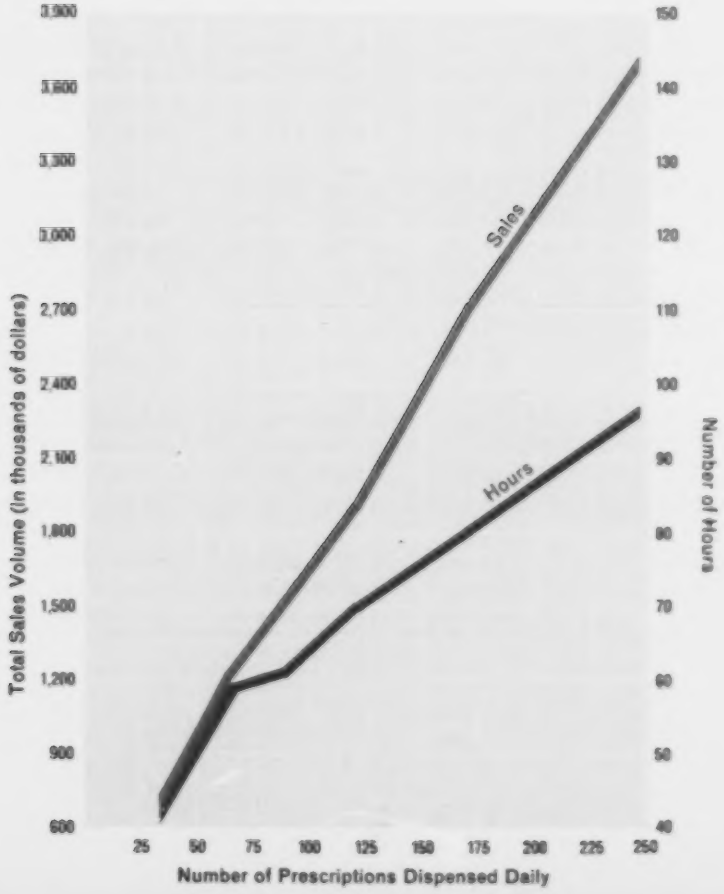


CHART 4

Total sales volume and employed pharmacist hours according to daily prescription activity

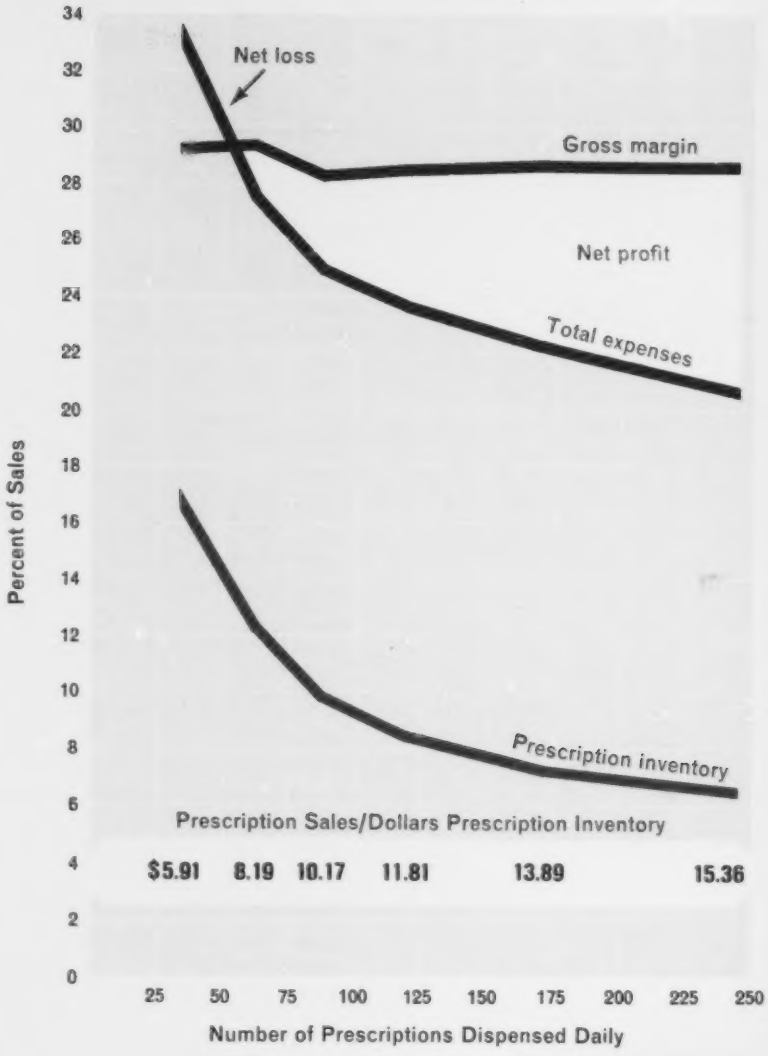
TABLE 3

Chain operations according to number of prescriptions dispensed daily

AVERAGES PER PHARMACY	Under 50 Prescriptions Daily (117 Pharmacies)	50 to 75 Prescriptions Daily (186 Pharmacies)	75 to 100 Prescriptions Daily (210 Pharmacies)	100 to 150 Prescriptions Daily (349 Pharmacies)
Sales				
Prescription	$153,328— 22.7%	$ 250,980— 20.7%	$ 340,705— 21.6%	$ 472,458— 23.8%
Other	520,767— 77.3%	958,963— 79.3%	1,236,160— 78.4%	1,510,470— 76.2%
Total	$674,095—100.0%	$1,209,943—100.0%	$1,578,865—100.0%	$1,982,928—100.0%
Cost of goods sold	476,832— 70.7%	854,603— 70.6%	1,134,356— 71.8%	1,418,464— 71.5%
Gross margin	$197,263— 29.3%	$ 355,340— 29.4%	$ 444,509— 28.2%	$ 564,464— 28.5%
Expenses				
Manager's salary	$ 26,989— 4.0%	$ 29,855— 2.5%	$ 30,500— 1.9%	$ 31,215— 1.6%
Employees' wages	75,511— 11.2%	117,175— 9.7%	147,989— 9.4%	181,317— 9.1%
Rent	28,380— 4.2%	39,581— 3.3%	44,673— 2.8%	46,894— 2.4%
Utilities (including telephone)	11,092— 1.6%	16,599— 1.4%	20,036— 1.3%	23,441— 1.2%
Insurance, licenses, and taxes (except on profit)	13,710— 2.0%	22,990— 1.9%	28,525— 1.8%	32,990— 1.7%
Repairs	2,811— 0.4%	3,959— 0.3%	4,918— 0.3%	5,624— 0.3%
Advertising	14,143— 2.1%	24,851— 2.1%	25,675— 1.6%	31,207— 1.5%
Depreciation (except on buildings)	7,753— 1.2%	9,906— 0.8%	10,095— 0.7%	10,513— 0.5%
Supplies	5,098— 0.8%	6,838— 0.6%	8,519— 0.5%	11,165— 0.6%
Headquarters fee	19,628— 2.9%	35,478— 2.9%	42,046— 2.7%	55,256— 2.8%
All other direct store expenses	21,388— 3.2%	25,644— 2.1%	30,530— 1.9%	37,198— 1.9%
	14.2%	12.1%	10.6%	10.5%
Total expenses	$226,303— 33.6%	$ 332,876— 27.6%	$ 393,508— 24.9%	$ 466,820— 23.6%
Net profit (before taxes)	($ 29,040— 4.3%)	$ 22,464— 1.8%	$ 51,001— 3.3%	$ 97,644— 4.9%
Value of inventory at cost and as a percent of sales				
Prescription	$ 25,955— 16.9%	$ 30,638— 12.2%	$ 33,490— 9.8%	$ 39,997— 8.5%
Other	129,334— 24.8%	180,860— 18.9%	211,079— 17.0%	239,872— 15.9%
Total	$155,289— 23.0%	$ 211,498— 17.5%	$ 244,569— 15.5%	$ 279,869— 14.1%
Annual rate of turnover of inventory	3.1 times	4.2 times	4.7 times	5.2 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	403 $383.55	377 $674.24	387 $890.86	399 $1,190.91
Other	4,680 107.08	6,383 144.58	6,822 170.58	7,717 186.41
Total	5,083 138.55	6,760 190.24	7,209 242.06	8,116 292.03
Sales per dollar invested in inventory				
Prescription	$5.91	$8.19	$10.17	$11.81
Other	4.03	5.30	5.87	6.30
Net profit per dollar invested in inventory	($0.187)	$0.106	$0.209	$0.349
Number of prescriptions dispensed				
New	7,116— 53.8%	11,887— 51.9%	16,502— 52.2%	22,884— 51.8%
Renewed	6,119— 46.2%	11,008— 48.1%	15,092— 47.8%	21,257— 48.2%
Total	13,235—100.0%	22,895—100.0%	31,594—100.0%	44,141—100.0%
Prescription charge	$11.58	$10.96	$10.78	$10.70
Number of hours per week				
Pharmacy was open	69 hours	77 hours	80 hours	82 hours
Worked by manager	46 hours	46 hours	46 hours	46 hours
Worked by employed pharmacist(s)	42 hours	59 hours	61 hours	70 hours

*Based on averages of pharmacies that reported all data

	150 to 200 Prescriptions Daily (199 Pharmacies)		Over 200 Prescriptions Daily (142 Pharmacies)	
	$ 660,309–	24.4%	$ 967,176–	25.7%
	2,048,396–	75.6%	2,792,479–	74.3%
	$2,708,705–	100.0%	$3,759,655–	100.0%
	1,931,062–	71.3%	2,685,431–	71.4%
	$ 777,643–	28.7%	$1,074,224–	28.6%
	$ 33,766–	1.2%	$ 39,149–	1.0%
	229,850–	8.5%	299,901–	8.0%
	59,552–	2.2%	81,619–	2.2%
	28,050–	1.0%	31,292–	0.8%
10.3%	39,129–	1.5%	52,783–	1.4%
	8,603–	0.3%	11,968–	0.3%
	43,766–	1.6%	59,828–	1.6%
	14,307–	0.5%	17,308–	0.5%
	13,512–	0.5%	18,723–	0.5%
	83,198–	3.1%	114,569–	3.0%
	48,008–	1.8%	49,553–	1.3%
9.4%	$ 601,741–	22.2%	$ 776,693–	20.6%
	$ 175,902–	6.5%	$ 297,531–	8.0%
	$ 47,553–	7.2%	$ 62,976–	6.5%
	312,740–	15.3%	388,809–	13.9%
	$ 360,293–	13.3%	$ 451,785–	12.0%
		5.5 times		6.2 times
	sq. ft.		sq. ft.	
	505	$1,314.94	589	$1,730.36
	9,573	232.39	10,480	319.19
	10,078	368.88	11,049	$19.55
		$13.89		$15.36
		6.55		7.18
		$0.488		$0.659
	32,078–	51.9%	46,820–	52.1%
	29,708–	48.1%	42,969–	47.9%
	61,786–	100.0%	89,789–	100.0%
		$10.69		$10.77
		83 hours		85 hours
		46 hours		45 hours
		90 hours		96 hours



CHART

5

Selected operating statistics according to daily prescription activity

TABLE 4 Chain operations according to prescription revenue

AVERAGES PER PHARMACY	Prescription Income under 10% of Sales (52 Pharmacies)		Prescription Income 10 to 20% of Sales (345 Pharmacies)	
Sales				
Prescription	$ 326,126	8.2%	$ 434,515	15.3%
Other	3,666,922	91.8%	2,400,373	84.7%
Total	$3,993,048	100.0%	$2,834,888	100.0%
Cost of goods sold	2,964,695	74.2%	2,082,945	73.5%
Gross margin	$1,028,353	25.8%	$ 751,943	26.5%
Expenses				
Manager's salary	$ 46,116	1.2%	$ 32,610	1.2%
Employees' wages	322,057	8.1%	246,970	8.7%
Rent	99,043	2.5%	68,257	2.4%
Utilities (including telephone)	36,129	0.9%	32,365	1.2%
Insurance, licenses, and taxes (except on profit)	68,070	1.7%	50,050	1.8%
Repairs	10,750	0.3%	7,640	0.3%
Advertising	57,254	1.4%	40,380	1.4%
Depreciation (except on buildings)	30,527	0.8%	17,388	0.6%
Supplies	19,180	0.5%	13,535	0.5%
Headquarters fee	66,905	1.7%	60,143	2.1%
All other direct store expenses	49,512	1.2%	46,596	1.6%
		8.5%		9.5%
Total expenses	$ 805,543	20.3%	$ 615,934	21.8%
Net profit (before taxes)	$ 222,810	5.5%	$ 136,009	4.7%
Value of inventory at cost and as a percent of sales				
Prescription	$ 33,635	10.3%	$ 36,817	8.5%
Other	481,937	13.1%	342,134	14.3%
Total	$ 515,572	12.9%	$ 378,951	13.4%
Annual rate of turnover of inventory	6.0 times		5.6 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	440	$785.52	442	$988.51
Other	12,713	307.01	10,591	230.97
Total	13,153	323.01	11,033	261.33
Sales per dollar invested in inventory				
Prescription	$9.70		$11.80	
Other	7.61		7.02	
Net profit per dollar invested in inventory	$0.432		$0.359	
Number of prescriptions dispensed				
New	19,935	64.0%	22,293	54.0%
Renewed	11,211	36.0%	19,008	46.0%
Total	31,146	100.0%	41,301	100.0%
Prescription charge	$10.47		$10.52	
Number of hours per week				
Pharmacy was open	80 hours		83 hours	
Worked by manager	46 hours		46 hours	
Worked by employed pharmacist(s)	75 hours		81 hours	

*Based on averages of pharmacies that reported all data

Prescription Income 20 to 30% of Sales (315 Pharmacies)	Prescription Income 30 to 40% of Sales (227 Pharmacies)	Prescription Income 40 to 50% of Sales (121 Pharmacies)	Prescription Income over 50% of Sales (143 Pharmacies)
$ 497,327— 24.5%	$ 504,213— 34.5%	$ 553,167— 43.9%	$453,733— 70.6%
1,529,482— 75.5%	958,255— 65.5%	706,531— 56.1%	188,937— 29.4%
$2,026,809—100.0%	$1,462,468—100.0%	$1,259,698—100.0%	$642,670—100.0%
1,433,827— 70.7%	999,381— 68.3%	846,058— 67.2%	419,220— 65.2%
$ 592,982— 29.3%	$ 463,087— 31.7%	$ 413,640— 32.8%	$223,450— 34.8%
$ 29,425— 1.5%	$ 30,368— 2.1%	$ 31,646— 2.5%	$ 32,502— 5.1%
188,480— 9.3%	133,677— 9.1%	109,069— 8.7%	59,079— 9.2%
48,438— 2.4%	36,684— 2.5%	33,501— 2.7%	24,705— 3.8%
23,363— 1.2%	16,928— 1.2%	14,067— 1.1%	5,952— 0.9%
31,655— 1.6%	21,953— 1.5%	16,929— 1.3%	5,983— 0.9%
6,699— 0.3%	5,890— 0.4%	4,891— 0.4%	1,505— 0.3%
36,228— 1.8%	30,390— 2.1%	29,252— 2.3%	7,043— 1.1%
10,545— 0.5%	7,172— 0.5%	5,494— 0.4%	4,493— 0.7%
11,296— 0.6%	8,990— 0.6%	7,987— 0.6%	4,683— 0.7%
65,001— 3.2%	62,241— 4.3%	59,960— 4.8%	26,202— 4.1%
45,336— 2.2%	21,477— 1.5%	17,924— 1.4%	22,938— 3.6%
11.4%	12.1%	12.3%	12.3%
$ 496,466— 24.6%	$ 375,770— 25.8%	$ 330,720— 26.2%	$195,085— 30.4%
$ 96,516— 4.7%	$ 87,317— 5.9%	$ 82,920— 6.6%	$ 28,365— 4.4%
$ 40,527— 8.1%	$ 40,369— 8.0%	$ 43,828— 7.9%	$ 45,098— 9.9%
249,690— 16.3%	185,187— 19.3%	157,211— 22.3%	80,071— 42.4%
$ 290,217— 14.3%	$ 225,556— 15.4%	$ 201,039— 16.0%	$125,169— 19.5%
5.1 times	4.6 times	4.3 times	3.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
417 $1,164.62	441 $1,128.52	349 $1,317.57	424 $1,011.76
8,249 181.37	6,243 139.96	4,963 117.86	1,446 107.37
8,666 228.70	6,684 198.61	5,312 196.75	1,870 312.48
$12.27	$12.49	$12.62	$10.06
6.13	5.17	4.49	2.36
$0.333	$0.387	$0.412	$0.227
23,982— 52.1%	23,780— 50.8%	25,616— 50.3%	19,218— 47.9%
22,059— 47.9%	23,000— 49.2%	25,305— 49.7%	20,926— 52.1%
46,041—100.0%	46,780—100.0%	50,921—100.0%	40,144—100.0%
$10.80	$10.78	$10.86	$11.30
84 hours	82 hours	79 hours	61 hours
46 hours	46 hours	45 hours	45 hours
81 hours	62 hours	56 hours	33 hours

Ten-Year Trends in Pharmacy Operations

Trends in the average operating statistics of the chain drugstore industry are depicted in Charts 6 and 7 and Tables 5 and 6. By combining their knowledge of local market conditions with observations of these trends, pharmacy managers can project key operating statistics for a particular store—a valuable tool to be used in the planning process.

Sales, Expenses, Inventory Levels

During 1983, the annual sales volume of the typical NACDS-LILLY DIGEST unit continued its upward trend for the eighth consecutive year (Chart 6). The growth record during the latter half of the decade is impressive, and it is anticipated that this trend will surpass the $2,000,000 annual sales mark in the very near future. Net profit took a slight downturn during 1983 but remained above the 5% level (Chart 7).

As a percent of sales, the cost of goods sold increased to 71.4%, although it was still below the ten-year average of 71.7%. The lower level of gross margin and the higher level of total expenses, as a percent of sales, accounted for the decrease in net profit. Total expenses were slightly higher, since

CHART 6 Sales growth—1974-1983

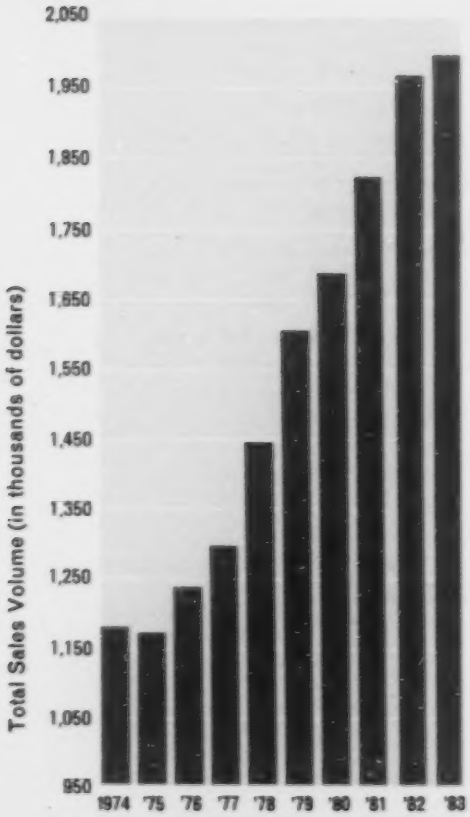
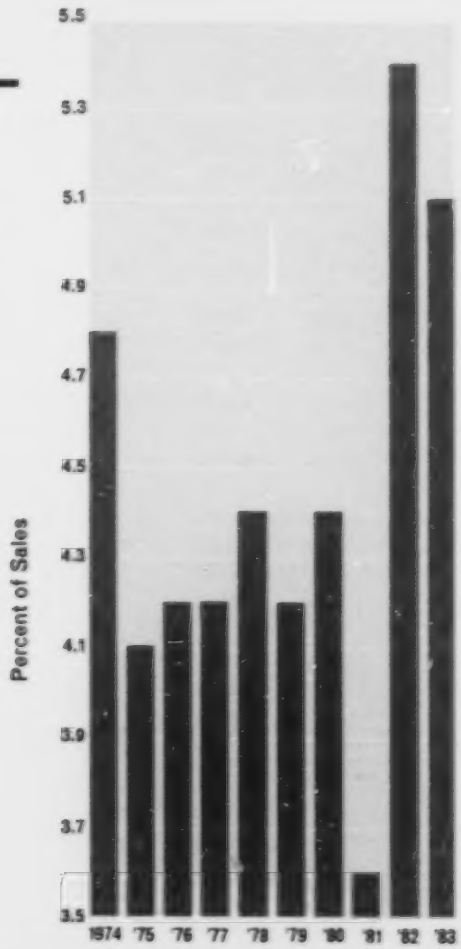


CHART 7 Net profit percentage—1974-1983



decreases in employees' wages and rent percentagewise were more than offset by increases in manager's salary and miscellaneous operating expenses (Table 5).

Inventory investment as a percent of sales has not demonstrated a marked tendency but has behaved in a somewhat erratic manner—increasing during 1983 to 14.3% of sales. This gain was most evident with the front-end merchandise, which rose from 15.7% to 16.1% of sales (Table 6). Prescription inventory dropped from 8.7% to 8.4% of sales to reach an all-time low.

Table 6 shows prescription department trends and indicates an increase in the average number of prescriptions dispensed in the typical chain pharmacy. Prescription sales were up 12.5%, owing largely to a 12.0% rise in the average prescription charge. The prescription department's share of total sales, at 23.7%, is the highest on record. The number of new prescriptions dropped slightly during 1983 and accounted for 52% of all prescriptions dispensed. The productivity of prescription merchandise (sales per dollar of prescription inventory) attained a new high of $11.84. Nonprescription stock productivity has been inconsistent

TABLE 5

Averages of pharmacy operations—1974-1983 (based on all pharmacies reporting)

EXPRESSED IN DOLLARS

Year	Sales	Cost of Goods Sold	Gross Margin	Manager's Salary	Employees' Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1974	$1,182,634	$ 849,821	$332,813	$24,178	$110,880	$32,588	$108,621	$276,267	$ 56,546	$174,582
1975	1,173,318	842,774	330,544	24,367	114,412	32,504	110,946	282,229	48,315	164,487
1976	1,238,846	894,485	344,361	22,581	115,968	32,986	120,569	292,104	52,257	184,852
1977	1,295,213	929,644	365,569	22,789	124,534	34,769	129,484	311,576	53,993	195,234
1978	1,443,299	1,036,746	406,553	24,187	137,166	37,555	144,065	342,973	63,580	209,718
1979	1,606,756	1,156,667	450,089	26,515	151,781	43,224	161,010	382,530	67,559	227,115
1980	1,685,848	1,198,974	486,874	27,021	161,598	44,970	178,911	412,500	74,374	242,092
1981	1,824,139	1,305,059	519,080	27,753	175,036	46,268	203,674	452,731	66,349	275,033
1982	1,962,217	1,397,909	564,308	30,312	177,252	50,049	201,089	458,702	105,606	278,661
1983	1,995,366	1,424,453	570,913	31,827	177,318	49,768	209,903	468,816	102,097	284,616

EXPRESSED IN PERCENTAGE OF SALES

Year	Sales	Cost of Goods Sold	Gross Margin	Manager's Salary	Employees' Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1974	100.0	71.9	28.1	2.0	9.4	2.8	9.1	23.3	4.8	14.8
1975	100.0	71.8	28.2	2.1	9.8	2.8	9.4	24.1	4.1	14.0
1976	100.0	72.2	27.8	1.8	9.4	2.7	9.7	23.6	4.2	14.9
1977	100.0	71.8	28.2	1.8	9.6	2.7	9.9	24.0	4.2	15.1
1978	100.0	71.8	28.2	1.7	9.5	2.6	10.0	23.8	4.4	14.5
1979	100.0	72.0	28.0	1.7	9.4	2.7	10.0	23.8	4.2	14.1
1980	100.0	71.1	28.9	1.6	9.6	2.7	10.6	24.5	4.4	14.4
1981	100.0	71.5	28.5	1.5	9.6	2.5	11.3	24.9	3.6	15.1
1982	100.0	71.2	28.8	1.5	9.0	2.6	10.3	23.4	5.4	14.2
1983	100.0	71.4	28.6	1.6	8.9	2.5	10.5	23.5	5.1	14.3

over the decade; however, during 1983, nonprescription sales per dollar of inventory declined to $6.22 as compared with $6.37 recorded for the previous year.

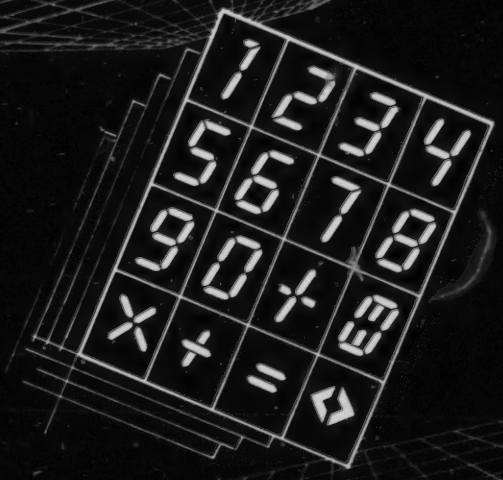
The size of the typical NACDS-LILLY DIGEST unit decreased by 14.3% during 1983. As mentioned earlier, this probably reflects an increase in the number of smaller-size operations reporting to the DIGEST for the first time. Sales productivity per square foot in the average store increased from $132.88 to $243.90 over the ten-year period, which suggests that successful merchandising is evident in chain units—notwithstanding the impact of inflation on unit prices.

TABLE 6 Prescription trends—1974-1983

AVERAGES PER PHARMACY

Year	Prescription Sales	Percentage of Prescription Sales to Total Sales	Number of Prescriptions	Percent Renewals	Prescription Charge	Prescription Inventory	Prescription Sales per Dollar of Prescription Inventory	Non-prescription Sales per Dollar of Inventory	Non-prescription Inventory as Percent of Sales	Prescription Inventory as Percent of Sales
1974	$195,675	16.5%	44,783	48.6%	$ 4.37	$20,675	$ 9.46	$6.41	15.6%	10.6%
1975	207,382	17.7%	43,457	48.3%	4.77	21,737	9.54	6.77	14.8%	10.5%
1976	224,852	18.2%	43,305	48.6%	5.19	22,387	10.04	6.24	16.0%	10.0%
1977	244,558	18.9%	43,742	47.7%	5.59	24,133	10.13	6.14	16.3%	9.9%
1978	264,523	18.3%	44,144	46.9%	5.99	25,519	10.37	6.40	15.6%	9.6%
1979	287,744	17.9%	43,877	46.1%	6.56	27,491	10.47	6.61	15.1%	9.6%
1980	315,341	18.7%	43,578	46.9%	7.24	29,711	10.61	6.45	15.5%	9.4%
1981	365,680	20.0%	44,001	45.8%	8.31	32,172	11.37	6.01	16.7%	8.8%
1982	421,149	21.5%	43,780	47.7%	9.62	36,805	11.44	6.37	15.7%	8.7%
1983	473,647	23.7%	43,967	48.0%	10.77	40,011	11.84	6.22	16.1%	8.4%

H E A R T



The heart of the 1984 NACDS-LILLY DIGEST comprises 18 categories of chain pharmacy operating data arranged first by sales and then by daily prescription activity (Tables 7 through 9). These groups of operating statistics are structured to allow comparison with any pharmacy's figures.

A standard accounting format is used throughout the DIGEST, but adjustments may be necessary to permit proper comparisons with other accounting systems.

THE HEART OF THE NACDS-LILLY DIGEST—
1983 operations according to sales and prescription activity

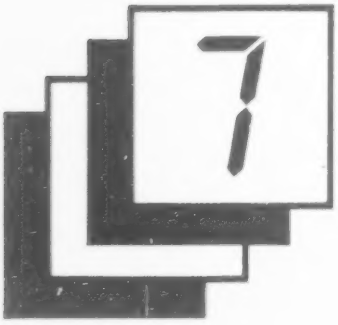


Table 7 Sales under $1,000,000

AVERAGES PER PHARMACY	TOTAL SALES Under $500,000 (103 Pharmacies)	
Sales		
Prescription	$213,103	62.0%
Other	130,814	38.0%
Total	$343,917	100.0%
Cost of goods sold	227,196	66.1%
Gross margin	$116,721	33.9%
Expenses		
Manager's salary	$ 28,674	8.3%
Employees' wages	30,659	8.9%
Rent	20,095	5.8%
Utilities (including telephone)	4,141	1.2%
Insurance, licenses, and taxes (except on profit)	3,295	1.0%
Repairs	699	0.2%
Advertising	4,103	1.2%
Depreciation (except on buildings)	2,868	0.8%
Supplies	2,280	0.7%
Headquarters fee	12,905	3.7%
All other direct store expenses	16,770	4.9%
	13.7%	
Total expenses	$126,489	36.7%
Net profit (before taxes)	($ 9,768	2.8%)
Value of inventory at cost and as a percent of sales		
Prescription	$ 28,828	13.5%
Other	72,317	55.3%
Total	$101,145	29.4%
Annual rate of turnover of inventory	2.3 times	
Size of area and sales per square foot*	sq. ft.	
Prescription	346	$621.80
Other	1,458	88.67
Total	1,804	190.95
Sales per dollar invested in inventory		
Prescription	$7.39	
Other	1.81	
Net profit per dollar invested in inventory	($0.100)	
Number of prescriptions dispensed		
New	10,099	53.9%
Renewed	8,640	46.1%
Total	18,739	100.0%
Prescription charge	$11.37	
Number of hours per week		
Pharmacy was open	58 hours	
Worked by manager	45 hours	
Worked by employed pharmacist(s)	20 hours	

*Based on averages of pharmacies that reported all data

TOTAL SALES $500,000 to $750,000 (79 Pharmacies)		TOTAL SALES $750,000 to $1,000,000 Under 75 Prescriptions Daily (54 Pharmacies)		Over 75 Prescriptions Daily (62 Pharmacies)	
$291,429	46.7%	$225,577	25.5%	$400,290	44.7%
333,073	53.3%	660,576	74.5%	496,101	55.3%
$624,502	100.0%	$886,153	100.0%	$896,391	100.0%
429,432	68.8%	618,898	69.8%	617,590	68.9%
$195,070	31.2%	$267,255	30.2%	$278,801	31.1%
$ 30,819	4.9%	$ 27,779	3.1%	$ 32,050	3.6%
67,030	10.7%	98,154	11.1%	82,406	9.2%
23,350	3.7%	29,172	3.3%	27,209	3.0%
10,032	1.6%	12,618	1.4%	11,452	1.3%
10,130	1.6%	19,302	2.2%	13,603	1.5%
2,108	0.4%	2,896	0.3%	2,949	0.3%
11,517	1.9%	19,319	2.2%	16,792	1.9%
5,811	0.9%	6,484	0.7%	4,614	0.5%
4,839	0.8%	6,512	0.7%	6,931	0.8%
20,522	3.3%	27,247	3.1%	26,683	3.0%
20,205	3.2%	20,261	2.3%	17,429	1.9%
13.7%		12.9%		11.2%	
$206,363	33.0%	$269,744	30.4%	$242,118	27.0%
($ 11,293	1.8%)	($ 2,489	0.2%)	$ 36,683	4.1%
$ 37,959	13.0%	$ 27,533	12.2%	$ 35,883	9.0%
108,456	32.6%	133,945	20.3%	115,755	23.3%
$146,415	23.4%	$161,478	18.2%	$151,638	16.9%
3.0 times		3.9 times		4.2 times	
sq. ft.		sq. ft.		sq. ft.	
468	$630.78	353	$643.40	397	$1,008.29
3,955	83.09	5,866	112.00	4,715	105.22
4,423	141.08	6,219	142.21	5,112	175.35
	$7.68		$8.19		$11.15
	3.07		4.93		4.29
	($0.080)		($0.020)		$0.241
12,647	47.8%	10,771	52.6%	19,245	50.8%
13,798	52.2%	9,705	47.4%	18,663	49.2%
26,445	100.0%	20,476	100.0%	37,908	100.0%
	$11.02		$11.02		$10.56
	70 hours		78 hours		78 hours
	46 hours		46 hours		46 hours
	47 hours		55 hours		45 hours

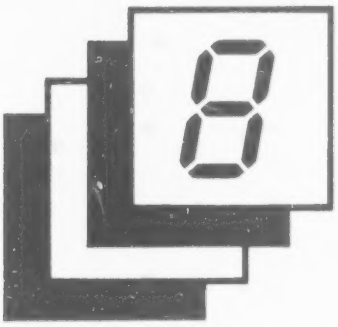


Table 8 Sales $1,000,000 to $2,000,000

AVERAGES PER PHARMACY	TOTAL SALES $1,000,000 to $1,500,000				Over 100 Prescriptions Daily (122 Pharmacies)	
	Under 75 Prescriptions Daily (48 Pharmacies)		75 to 100 Prescriptions Daily (47 Pharmacies)			
Sales						
Prescription	$ 229,748	18.8%	$ 352,192	28.8%	$ 510,084	40.6%
Other	993,719	81.2%	870,785	71.2%	744,938	59.4%
Total	$1,223,467	100.0%	$1,222,977	100.0%	$1,255,022	100.0%
Cost of goods sold	858,068	70.1%	853,549	69.8%	851,948	67.9%
Gross margin	$ 365,399	29.9%	$ 369,428	30.2%	$ 403,074	32.1%
Expenses						
Manager's salary	$ 28,030	2.3%	$ 28,020	2.3%	$ 30,627	2.4%
Employees' wages	133,611	10.9%	119,993	9.8%	121,949	9.7%
Rent	40,687	3.3%	29,354	2.4%	28,396	2.3%
Utilities (including telephone)	17,568	1.5%	16,793	1.4%	14,477	1.1%
Insurance, licenses, and taxes (except on profit)	24,675	2.0%	24,211	2.0%	19,311	1.5%
Repairs	4,921	0.4%	4,231	0.3%	4,490	0.4%
Advertising	26,800	2.2%	22,922	1.9%	24,118	1.9%
Depreciation (except on buildings)	11,241	0.9%	5,614	0.4%	5,807	0.5%
Supplies	7,566	0.6%	7,940	0.6%	9,002	0.7%
Headquarters fee	41,444	3.4%	42,706	3.5%	51,683	4.1%
All other direct store expenses	30,189	2.5%	20,246	1.7%	18,723	1.5%
		13.5%		11.8%		11.7%
Total expenses	$ 366,732	30.0%	$ 322,030	26.3%	$ 328,583	26.1%
Net profit (before taxes)	($ 1,333	0.1%)	$ 47,398	3.9%	$ 74,491	6.0%
Value of inventory at cost and as a percent of sales						
Prescription	$ 30,032	13.1%	$ 32,744	9.3%	$ 41,370	8.1%
Other	189,795	19.1%	161,477	18.5%	149,919	20.1%
Total	$ 219,827	18.0%	$ 194,221	15.9%	$ 191,289	15.2%
Annual rate of turnover of inventory	4.1 times		4.5 times		4.6 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.	
Prescription	369	$628.66	368	$956.10	381	$1,316.14
Other	7,442	133.18	6,533	133.29	6,017	123.64
Total	7,811	156.62	6,901	177.21	6,398	194.68
Sales per dollar invested in inventory						
Prescription	$7.65		$10.76		$12.33	
Other	5.24		5.39		4.97	
Net profit per dollar invested in inventory	($0.010)		$0.240		$0.390	
Number of prescriptions dispensed						
New	10,849	53.0%	15,711	49.9%	23,562	48.8%
Renewed	9,605	47.0%	15,780	50.1%	24,752	51.2%
Total	20,454	100.0%	31,491	100.0%	48,314	100.0%
Prescription charge	$11.23		$11.18		$10.56	
Number of hours per week						
Pharmacy was open	78 hours		81 hours		82 hours	
Worked by manager	46 hours		47 hours		46 hours	
Worked by employed pharmacist(s)	66 hours		63 hours		62 hours	

*Based on averages of pharmacies that reported all data

TOTAL SALES
$1,500,000 to $2,000,000

Under 100 Prescriptions Daily (74 Pharmacies)	100 to 150 Prescriptions Daily (63 Pharmacies)	Over 150 Prescriptions Daily (63 Pharmacies)
$ 291,484— 16.9%	$ 465,334— 26.6%	$ 745,653— 43.0%
1,430,319— 83.1%	1,281,009— 73.4%	987,444— 57.0%
$1,721,803—100.0%	$1,746,343—100.0%	$1,733,097—100.0%
1,242,655— 72.2%	1,220,364— 69.9%	1,157,546— 66.8%
$ 479,148— 27.8%	$ 525,979— 30.1%	$ 575,551— 33.2%
$ 27,633— 1.6%	$ 28,811— 1.6%	$ 32,963— 1.9%
175,280— 10.2%	172,026— 9.9%	148,383— 8.6%
52,214— 3.0%	40,750— 2.3%	42,254— 2.4%
24,340— 1.4%	20,246— 1.2%	17,726— 1.0%
32,582— 1.9%	28,794— 1.6%	23,777— 1.4%
6,353— 0.4%	6,247— 0.4%	7,601— 0.5%
32,911— 1.9%	34,480— 2.0%	38,559— 2.2%
16,121— 0.9%	9,058— 0.5%	7,519— 0.4%
9,008— 0.5%	10,267— 0.6%	10,660— 0.6%
46,626— 2.7%	63,642— 3.6%	90,654— 5.3%
40,589— 2.4%	38,267— 2.2%	21,209— 1.2%
12.1%	12.1%	12.6%
$ 463,657— 26.9%	$ 452,588— 25.9%	$ 441,305— 25.5%
$ 15,491— 0.9%	$ 73,391— 4.2%	$ 134,246— 7.7%
$ 30,589— 10.5%	$ 41,303— 8.9%	$ 55,951— 7.5%
253,519— 17.7%	223,939— 17.5%	205,287— 20.8%
$ 284,108— 16.5%	$ 265,242— 15.2%	$ 261,238— 15.1%
4.4 times	4.7 times	4.6 times
sq. ft.	sq. ft.	sq. ft.
376 $775.22	396 $1,180.68	406 $1,909.10
8,899 160.73	7,362 174.19	5,861 160.67
9,275 185.64	7,758 225.60	6,267 273.89
$9.52	$11.27	$13.33
5.64	5.72	4.81
$0.055	$0.280	$0.510
14,102— 51.9%	22,360— 51.4%	33,824— 49.0%
13,079— 48.1%	21,169— 48.6%	35,148— 51.0%
27,181—100.0%	43,529—100.0%	68,972—100.0%
$10.72	$10.69	$10.81
80 hours	84 hours	82 hours
46 hours	46 hours	45 hours
70 hours	79 hours	69 hours

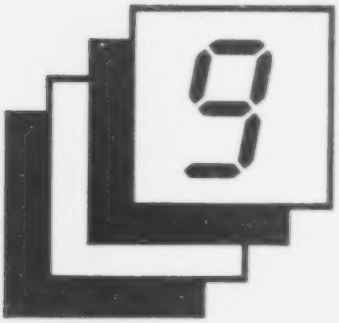


Table 9 Sales over $2,000,000

AVERAGES PER PHARMACY	TOTAL SALES $2,000,000 to $2,500,000		
	Under 100 Prescriptions Daily (47 Pharmacies)	100 to 150 Prescriptions Daily (55 Pharmacies)	Over 150 Prescriptions Daily (52 Pharmacies)
Sales			
Prescription	$ 288,065— 13.1%	$ 493,798— 22.0%	$ 778,920— 34.2%
Other	1,910,946— 86.9%	1,749,327— 78.0%	1,501,262— 65.8%
Total	$2,199,011—100.0%	$2,243,125—100.0%	$2,280,182—100.0%
Cost of goods sold	1,620,037— 73.7%	1,606,475— 71.6%	1,554,138— 68.2%
Gross margin	$ 578,974— 26.3%	$ 636,650— 28.4%	$ 726,044— 31.8%
Expenses			
Manager's salary	$ 32,718— 1.5%	$ 30,740— 1.4%	$ 32,862— 1.4%
Employees' wages	202,894— 9.2%	225,712— 10.1%	197,494— 8.7%
Rent	61,976— 2.8%	55,725— 2.5%	57,977— 2.5%
Utilities (including telephone)	31,421— 1.4%	29,970— 1.3%	24,201— 1.1%
Insurance, licenses, and taxes (except on profit)	44,471— 2.0%	40,577— 1.8%	31,299— 1.4%
Repairs	6,485— 0.3%	6,538— 0.3%	9,473— 0.4%
Advertising	35,177— 1.6%	33,490— 1.5%	50,529— 2.2%
Depreciation (except on buildings)	13,144— 0.6%	11,350— 0.5%	10,038— 0.4%
Supplies	11,251— 0.5%	12,402— 0.5%	11,247— 0.5%
Headquarters fee	48,287— 2.2%	58,251— 2.6%	107,520— 4.7%
All other direct store expenses	35,916— 1.7%	53,232— 2.4%	38,637— 1.7%
	10.3%	10.9%	12.4%
Total expenses	$ 523,740— 23.8%	$ 557,987— 24.9%	$ 571,277— 25.0%
Net profit (before taxes)	$ 55,234— 2.5%	$ 78,663— 3.5%	$ 154,767— 6.8%
Value of inventory at cost and as a percent of sales			
Prescription	$ 30,611— 10.6%	$ 40,727— 8.2%	$ 53,808— 6.9%
Other	299,855— 15.7%	289,817— 16.6%	283,977— 18.9%
Total	$ 330,466— 15.0%	$ 330,544— 14.7%	$ 337,785— 14.8%
Annual rate of turnover of inventory	5.0 times	5.0 times	4.7 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	418 $688.30	459 $1,124.42	770 $931.24
Other	10,719 178.45	9,573 181.50	8,006 198.09
Total	11,137 197.58	10,032 224.61	8,776 262.42
Sales per dollar invested in inventory			
Prescription	$9.41	$12.12	$14.48
Other	6.37	6.04	5.29
Net profit per dollar invested in inventory	$0.170	$0.240	$0.460
Number of prescriptions dispensed			
New	15,206— 54.1%	23,275— 51.6%	38,136— 52.5%
Renewed	12,924— 45.9%	21,804— 48.4%	34,457— 47.5%
Total	28,130—100.0%	45,079—100.0%	72,593—100.0%
Prescription charge	$10.24	$10.95	$10.73
Number of hours per week			
Pharmacy was open	84 hours	86 hours	84 hours
Worked by manager	46 hours	46 hours	45 hours
Worked by employed pharmacist(s)	68 hours	90 hours	76 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES $2,500,000 to $3,000,000			TOTAL SALES Over $3,000,000		
Under 150 Prescriptions Daily (79 Pharmacies)	Over 150 Prescriptions Daily (49 Pharmacies)		Under 150 Prescriptions Daily (61 Pharmacies)	150 to 200 Prescriptions Daily (69 Pharmacies)	Over 200 Prescriptions Daily (76 Pharmacies)
$ 426,070— 15.6%	$ 768,977— 28.2%		$ 435,495— 11.7%	$ 675,990— 16.2%	$ 979,054— 19.2%
2,299,430— 84.4%	1,958,626— 71.8%		3,274,328— 88.3%	3,509,435— 83.8%	4,112,394— 80.8%
$2,725,500—100.0%	$2,727,503—100.0%		$3,709,823—100.0%	$4,185,425—100.0%	$5,091,448—100.0%
2,000,018— 73.4%	1,921,629— 70.5%		2,720,699— 73.3%	3,064,065— 73.2%	3,719,941— 73.1%
$ 725,482— 26.6%	$ 805,874— 29.5%		$ 989,124— 26.7%	$1,121,360— 26.8%	$1,371,507— 26.9%
$ 31,776— 1.2%	$ 28,402— 1.0%		$ 36,217— 1.0%	$ 37,874— 0.9%	$ 44,940— 0.9%
241,220— 8.9%	233,165— 8.5%		295,866— 8.0%	341,190— 8.2%	395,680— 7.8%
67,169— 2.5%	62,560— 2.3%		93,577— 2.5%	85,464— 2.0%	103,081— 2.0%
33,082— 1.2%	28,807— 1.1%		37,828— 1.0%	41,161— 1.0%	40,009— 0.8%
46,595— 1.7%	33,542— 1.2%		62,779— 1.7%	63,374— 1.5%	75,826— 1.5%
6,423— 0.2%	9,329— 0.3%		9,467— 0.3%	11,381— 0.3%	13,970— 0.3%
38,794— 1.4%	46,350— 1.7%		52,656— 1.4%	58,090— 1.4%	70,087— 1.4%
18,707— 0.7%	13,835— 0.5%		24,635— 0.7%	23,668— 0.6%	21,684— 0.4%
13,852— 0.5%	13,834— 0.5%		16,230— 0.4%	18,975— 0.4%	23,902— 0.5%
58,245— 2.1%	106,404— 3.9%		75,788— 2.0%	67,410— 2.1%	115,153— 2.2%
52,394— 1.9%	54,543— 2.0%		53,852— 1.5%	64,244— 1.5%	67,992— 1.3%
9.7%	11.2%		9.0%	8.8%	8.4%
$ 608,257— 22.3%	$ 630,771— 23.0%		$ 758,895— 20.5%	$ 832,831— 19.9%	$ 972,324— 19.1%
$ 117,225— 4.3%	$ 175,103— 6.5%		$ 230,229— 6.2%	$ 288,529— 6.9%	$ 399,183— 7.8%
$ 36,523— 8.6%	$ 54,266— 7.1%		$ 39,891— 9.2%	$ 45,207— 6.7%	$ 58,706— 6.0%
325,795— 14.2%	321,236— 16.4%		438,929— 13.4%	457,131— 13.0%	505,879— 12.3%
$ 362,318— 13.3%	$ 375,502— 13.8%		$ 478,820— 12.9%	$ 502,338— 12.0%	$ 564,585— 11.1%
5.5 times	5.2 times		5.8 times	6.3 times	6.9 times
sq. ft.	sq. ft.		sq. ft.	sq. ft.	sq. ft.
472 $902.69	454 $1,555.41		440 $973.82	428 $1,608.41	573 $1,720.06
10,193 225.59	8,596 234.62		12,208 275.06	13,581 266.98	12,669 339.26
10,665 255.56	9,050 300.83		12,648 299.35	14,009 307.93	13,242 399.02
$11.67	$14.17		$10.92	$14.95	$16.68
7.06	6.10		7.46	7.68	8.13
$0.324	$0.470		$0.480	$0.570	$0.710
21,657— 53.5%	37,991— 52.2%		22,542— 55.7%	33,574— 54.2%	49,406— 54.6%
18,807— 46.5%	34,842— 47.8%		17,961— 44.3%	28,386— 45.8%	41,047— 45.4%
40,464—100.0%	72,833—100.0%		40,503—100.0%	61,960—100.0%	90,453—100.0%
$10.53	$10.56		$10.75	$10.91	$10.82
84 hours	88 hours		83 hours	84 hours	87 hours
46 hours	45 hours		45 hours	47 hours	45 hours
77 hours	85 hours		76 hours	93 hours	118 hours

Review by the Number of Units

TABLE 10 Operations according to number of units in the chain

AVERAGES PER PHARMACY	Under 11 Units (67 Pharmacies)		11 to 25 Units (177 Pharmacies)		26 to 50 Units (236 Pharmacies)		51 to 100 Units (121 Pharmacies)	
Sales								
Prescription	$ 436,640	24.7%	$ 387,418	27.1%	$ 406,520	23.1%	$ 455,969	27.3%
Other	1,334,436	75.3%	1,044,681	72.9%	1,349,780	76.9%	1,215,302	72.7%
Total	$1,771,076	100.0%	$1,432,099	100.0%	$1,756,300	100.0%	$1,671,271	100.0%
Cost of goods sold	1,272,452	71.8%	1,022,505	71.4%	1,254,625	71.4%	1,153,959	69.0%
Gross margin	$ 498,624	28.2%	$ 409,594	28.6%	$ 501,675	28.6%	$ 517,312	31.0%
Expenses								
Manager's salary	$ 29,813	1.7%	$ 31,269	2.2%	$ 28,619	1.6%	$ 25,386	1.5%
Employees' wages	175,396	9.9%	130,108	9.1%	150,307	8.6%	181,650	10.9%
Rent	42,007	2.4%	38,713	2.7%	43,920	2.5%	38,619	2.3%
Utilities (including telephone)	17,101	1.0%	16,272	1.1%	21,961	1.3%	18,678	1.1%
Insurance, licenses, and taxes (except on profit)	38,393	2.2%	21,727	1.5%	21,986	1.3%	35,421	2.1%
Repairs	5,456	0.3%	5,500	0.4%	4,623	0.3%	4,918	0.3%
Advertising	31,974	1.8%	23,735	1.6%	35,362	2.0%	27,142	1.6%
Depreciation (except on buildings)	13,311	0.8%	11,040	0.8%	10,979	0.6%	9,054	0.6%
Supplies	9,647	0.5%	8,549	0.6%	11,794	0.7%	11,592	0.7%
Headquarters fee	67,890	3.8%	44,140	3.1%	56,888	3.2%	61,279	3.7%
All other direct store expenses	25,567	1.4%	23,079	1.6%	51,389	2.9%	37,937	2.3%
		11.8%		10.7%		12.3%		12.4%
Total expenses	$ 456,555	25.8%	$ 354,132	24.7%	$ 437,828	25.0%	$ 451,676	27.1%
Net profit (before taxes)	$ 42,069	2.4%	$ 55,462	3.9%	$ 63,847	3.6%	$ 65,636	3.9%
Warehouse fee*	$ 19,376	3.5%	$ 21,929	2.1%	$ 40,550	3.3%	$ 22,333	2.7%
As a percent of cost of goods sold		4.9%		2.9%		4.5%		4.0%
Value of inventory at cost and as a percent of sales								
Prescription	$ 39,580	9.1%	$ 34,392	8.9%	$ 37,842	9.3%	$ 41,036	9.0%
Other	242,159	18.1%	184,433	17.7%	258,712	19.2%	183,625	15.1%
Total	$ 281,739	15.9%	$ 218,825	15.3%	$ 296,554	16.9%	$ 224,661	13.4%
Annual rate of turnover of inventory		4.8 times		4.9 times		4.4 times		5.1 times
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	698	$625.25	423	$921.71	416	$983.25	400	$1,139.89
Other	8,333	160.14	6,544	160.76	8,274	164.42	6,462	186.18
Total	9,031	196.11	6,967	206.94	8,690	203.66	6,862	241.81
Sales per dollar invested in inventory								
Prescription		$11.03		$11.26		$10.74		$11.11
Other		5.51		5.68		5.22		6.62
Net profit per dollar invested in inventory		$0.149		$0.253		$0.215		$0.292
Number of prescriptions dispensed								
New	21,578	52.8%	18,751	51.4%	20,197	52.3%	19,594	47.3%
Renewed	19,253	47.2%	17,697	48.6%	18,428	47.7%	21,795	52.7%
Total	40,831	100.0%	36,448	100.0%	38,625	100.0%	41,389	100.0%
Prescription charge		$10.69		$10.63		$10.52		$11.02
Number of hours per week								
Pharmacy was open		82 hours		79 hours		80 hours		86 hours
Worked by manager		47 hours		46 hours		48 hours		48 hours
Worked by employed pharmacist(s)		78 hours		55 hours		61 hours		84 hours

*Based on averages of pharmacies that reported all data

The size of a chain pharmacy organization may affect the operating figures of an individual unit. Chart 8 is a graphic illustration of statistics selected from Table 10 and arranged by the number of outlets in a chain. A total of 602, or 50%, of pharmacies reporting belong to chain organizations that have more than 100 units (Table 10). The weight of this cell causes the resulting figures to approximate the overall averages shown in Table 1. The greatest profitability (6.2% of sales) was reported by stores in chains of more than 100 units. Although this group did not report the lowest gross margin, they did record the lowest total expenses figures, which were sufficient to permit the highest net profit position as a percent of sales.

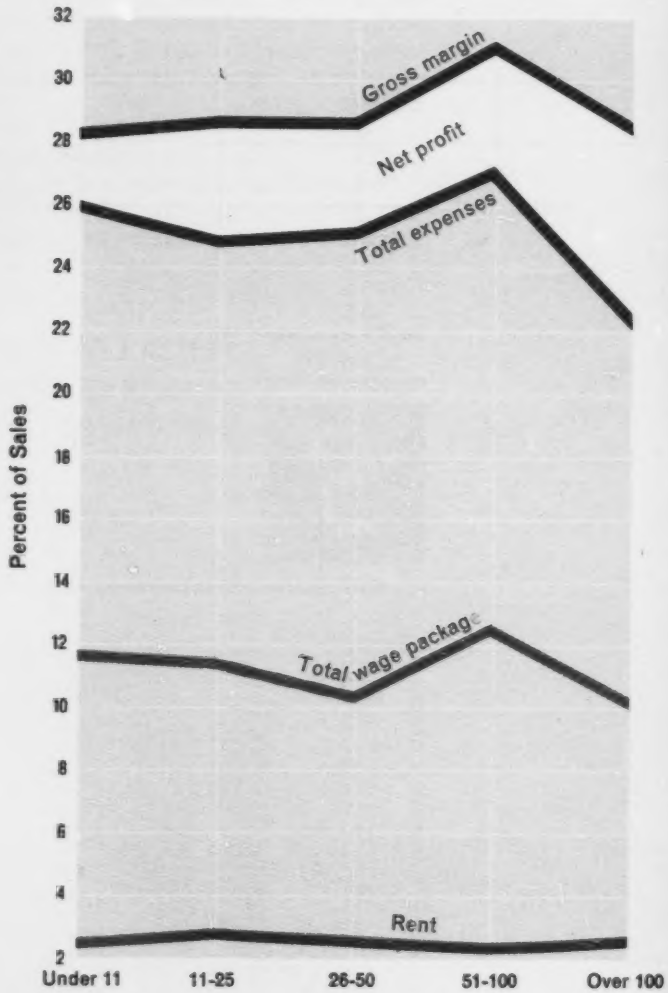
Table 10 presents the operating data of chain units belonging to chain firms of various sizes. The information shows that the size of the chain organization by itself does not guarantee the lowest cost of goods sold or the lowest expenditures. Profitability is more likely to be determined by the effectiveness of the management practices in each chain operation.

Over 100 Units (602 Pharmacies)	
$ 532,821—	22.7%
1,809,257—	77.3%
$2,341,878—	100.0%
1,677,908—	71.6%
$ 663,970—	28.4%
$ 34,752—	1.5%
201,040—	8.6%
58,391—	2.5%
25,455—	1.1%
37,809—	1.6%
7,329—	0.3%
36,144—	1.5%
12,161—	0.5%
10,892—	0.5%
60,924—	2.6%
34,415—	1.5%
9.6%	
$ 519,311—	22.2%
$ 144,659—	6.2%
$ 30,291—	1.9%
	2.7%
$ 42,327—	7.9%
269,205—	14.9%
$ 311,532—	13.3%
	5.5 times
sq. ft.	
392	$1,274.01
7,637	239.77
8,029	290.32
	$12.58
	6.72
	$0.464
25,942—	52.8%
23,162—	47.2%
49,104—	100.0%
	$10.85
	79 hours
	45 hours
	76 hours

CHART

8

Selected operating statistics according to number of units in the chain



Rent Review

The distribution of rental expenditures for chain drugstores is illustrated in Chart 9. Among the units included in the NACDS-LILLY DIGEST for 1983, 76.3% reported rent expense of less than 3.5% of sales, and almost 88% of the outlets paid a rental charge under 4.5% of total sales.

Table 11 was arranged so that chain managements can evaluate rent according to various unit characteristics. Analysis of rent expense through use of a combination of the sections shown in the table should permit a realistic comparison.

Section A shows the general relationship between annual sales volume and floor area. As sales increase, so does the size of the store in square feet. Rent per square foot tends to rise with additional floor space, but it is significant that productivity also improves, as indicated by the sales-per-square-foot ratios. Percentagewise, rent generally declines as sales volume and store size increase.

Section B arranges rent expenditures according to the percentage of prescription volume as it relates to total sales. When the prescription percentage moves up, average sales, pharmacy size in square feet, and average rent show a downward trend. Sales per square foot tend to decline as the prescription percentage increases except when prescription revenue accounts for over 50% of total income. Rent per square foot and rental expense, expressed as a percent of sales, appear to remain relatively constant until prescription sales contribute over 50% of total sales volume. At this point, floor area becomes more expensive. This may be attributed to locations in medical office buildings, which usually charge more for space.

Section C summarizes the effect of prescription activity on rent. Since it has previously been pointed out that prescription activity and sales volume are positively related, data found in this section can be expected to resemble the statistics in Section A.

Section D expresses rental information in terms of the number of units in the chain. No definitive correlations are observed in this section, and comparisons should, therefore, be made on an individual basis. It is interesting to note that the units belonging to chain organizations of over 100 stores reported the highest average sales and rent per square foot. This suggests that these stores are probably located in prime market areas that command higher rents.

Section E depicts how differences in geographic location account for variations found in average sales, store size, and rent. Rent, as a percent of sales, is lowest in the Pacific States and highest in the Mountain Region. However, when rent per square foot is considered, the South Atlantic States reported the largest figure. When compared with 1982 data, rental cost per square foot showed a general increase in all regions in spite of a reduction in the average unit size.

Section F expresses the various statistics according to floor size, and there appears to be a direct correlation between unit square footage and average sales.

Section G relates rental statistics to store age. Recently opened pharmacies show a lower average sales volume than do established units. Newer stores also appear to pay higher rent as a percent of sales than do older operations, which is understandable since they have not yet attained their full sales potential. In contrast to data for 1982, stores under ten years of age show a significant reduction in overall size. This decrease suggests a trend toward smaller-sized units.

CHART 9

Percent of pharmacies reporting various rent percentage ranges

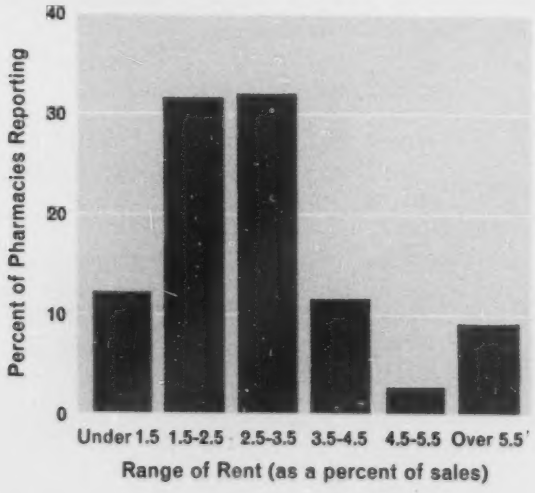


TABLE 11

Rent correlated with various factors

		Average Sales	Size of Pharmacy* (Square Feet)	Sales per Square Foot*	Average Rent	Rent per Square Foot	Rent Percentage
A	**Annual Sales**						
	Under $500,000	$ 343,917	1,804	$190.95	$ 20,095	$11.14	5.8%
	$500,000 to $1,000,000	783,406	5,144	152.04	26,189	5.09	3.3%
	$1,000,000 to $1,500,000	1,241,101	6,843	180.48	31,322	4.58	2.5%
	$1,500,000 to $2,000,000	1,733,091	8,065	213.98	45,465	5.64	2.6%
	$2,000,000 to $2,500,000	2,242,175	10,057	223.65	58,393	5.81	2.6%
	$2,500,000 to $3,000,000	2,726,267	10,103	268.39	65,405	6.47	2.4%
	Over $3,000,000	4,378,852	13,319	339.15	94,366	7.09	2.2%
B	**Percentage of Prescription Volume to Total Sales**						
	Under 10%	$3,993,048	13,153	$323.01	$ 99,043	$ 7.53	2.5%
	10% to 20%	2,834,888	11,033	261.33	68,257	6.19	2.4%
	20% to 30%	2,026,809	8,666	228.70	48,438	5.59	2.4%
	30% to 40%	1,462,468	6,684	198.61	36,684	5.49	2.5%
	40% to 50%	1,259,698	5,312	196.75	33,501	6.31	2.7%
	Over 50%	642,670	1,870	312.48	24,705	13.21	3.8%
C	**Prescriptions Dispensed Daily**						
	Under 50	$ 674,095	5,083	$138.55	$ 28,380	$ 5.58	4.2%
	50 to 75	1,209,943	6,760	190.24	39,581	5.86	3.3%
	75 to 100	1,578,865	7,209	242.08	44,673	6.20	2.8%
	100 to 150	1,982,928	8,116	292.03	46,894	5.78	2.4%
	150 to 200	2,708,705	10,078	368.88	59,552	5.91	2.2%
	Over 200	3,759,655	11,049	519.55	81,619	7.39	2.2%
D	**Number of Units in Chain**						
	Under 11	$1,771,076	9,031	$196.11	$ 42,007	$ 4.65	2.4%
	11 to 25	1,432,099	6,967	206.94	38,713	5.56	2.7%
	26 to 50	1,756,300	8,690	203.66	43,920	5.05	2.5%
	51 to 100	1,671,271	6,862	241.81	38,619	5.63	2.3%
	Over 100	2,341,878	8,029	290.32	58,391	7.27	2.5%
E	**Geographic Location**						
	New England States	$1,772,714	6,959	$257.27	$ 40,295	$ 5.79	2.3%
	Middle Atlantic States	2,345,634	10,925	236.76	58,813	5.38	2.5%
	South Atlantic States	2,219,112	6,288	375.43	63,455	10.09	2.9%
	East North Central States	1,894,903	8,189	232.68	46,620	5.69	2.5%
	West North Central States	1,761,488	8,792	200.36	49,551	5.64	2.8%
	East South Central States	1,244,226	7,061	152.48	37,756	5.35	3.0%
	West South Central States	2,012,731	5,373	279.52	48,983	9.12	2.4%
	Mountain States	1,941,317	7,352	264.06	60,842	8.28	3.1%
	Pacific States	3,513,417	10,422	337.11	76,318	7.32	2.2%
	NACDS-LILLY DIGEST Average	1,995,366	7,925	243.90	49,768	6.28	2.5%
F	**Floor Size**						
	Under 1,500 square feet	$ 474,414	951	$499.07	$ 24,579	$25.84	5.2%
	1,500 to 4,999 square feet	1,009,661	3,301	305.89	23,977	7.26	2.4%
	5,000 to 9,999 square feet	1,713,871	7,377	232.33	43,209	5.86	2.5%
	10,000 to 12,499 square feet	2,707,940	11,175	242.33	64,647	5.78	2.4%
	12,500 to 14,999 square feet	3,345,532	13,748	243.35	75,837	5.52	2.3%
	15,000 to 17,499 square feet	4,624,341	16,152	286.30	106,289	6.58	2.3%
	17,500 to 20,000 square feet	4,328,748	18,546	233.40	84,327	4.55	1.9%
	Over 20,000 square feet	4,075,488	24,094	169.15	88,707	3.68	2.2%
G	**Store Age**						
	Under 2 years	$1,390,633	6,625	$209.92	$ 40,442	$ 6.10	2.9%
	2 to 5 years	1,700,514	7,486	227.17	46,702	6.24	2.7%
	6 to 10 years	1,890,431	8,104	233.28	43,496	5.37	2.3%
	Over 10 years	2,201,475	8,294	265.42	53,031	6.39	2.4%

*Based on averages of pharmacies that reported all data

Pharmacy Location

Table 12 shows how the operating statistics of chain pharmacies differ according to location. The distribution of locations for the units participating in 1983 was as follows:

Downtown	10.0%
Neighborhood	14.0%
Neighborhood Shopping Center	64.0%
Regional Shopping Center	9.2%
Medical Office Building	2.8%

Of the first four categories, stores in downtown business districts reported the highest gross margin and, therefore, the lowest cost of goods sold. However, these outlets failed to make the largest net profit because of sizable total expenses—notably, the wage package. Pharmacies in the downtown area also posted the lowest number of prescriptions dispensed and the smallest floor area.

Neighborhood locations reported the highest annual sales but had the lowest gross margin; however, they also recorded the lowest total expenses, which generated the greatest net profit. The lower total expenses figure for this group was attributed to control of miscellaneous operating costs, the lowest of any location. These units had the largest dollar investment in inventory and the highest inventory turnover rate. They also showed the greatest net profit per dollar of inventory investment. Stores in this location dispensed more prescriptions than any other.

Neighborhood shopping center stores were the largest group reporting to the NACDS-LILLY DIGEST. These outlets had the largest floor area and the lowest average prescription charge of any location. They also reported the longest business hours. Of the first four groups, stores located in neighborhood shopping centers recorded the greatest inventory investment as a percent of sales and the lowest net profit per dollar of inventory.

Chain drugstores in regional shopping centers had the lowest share of prescription sales to total sales. Of the first four categories, units in these locations paid the most rent, both in dollars and as a percent of sales, but were able to generate a substantial $332.18 in sales per square foot.

Although only a small number of medical office building pharmacies responded, their data are included in order to provide chain managers with an understanding of this kind of operation.

The operating statistics of medical office building locations are characterized by a high gross margin, a large prescription income as a percent of total sales, and a relatively small floor area. However, greater total expenses offset the favorable gross margin and thus led to the lowest net profit.

These types of stores usually pay more rent per square foot because of their smaller physical size and prime location. In this category, rent per square foot was $17.61 in 1983 (up $2.37 from $15.24 in 1982). The total wage package was also significantly higher than that typically seen in chain operations. Medical office building pharmacies posted the lowest number of hours open and employed pharmacist hours worked, which may reflect the office hours of physicians located in the buildings and the relatively low prescription activity in these locations.

AVERAGES PER PHARMACY
Sales
Prescription
Other
Total
Cost of goods sold
Gross margin
Expenses
Manager's salary
Employees' wages
Rent
Utilities (including telephone)
Insurance, licenses, and taxes (except on profit)
Repairs
Advertising
Depreciation (except on buildings)
Supplies
Headquarters fee
All other direct store expenses
Total expenses
Net profit (before taxes)
Value of inventory at cost and as a percent of sales
Prescription
Other
Total
Annual rate of turnover of inventory
Size of area and sales per square foot*
Prescription
Other
Total
Sales per dollar invested in inventory
Prescription
Other
Net profit per dollar invested in inventory
Number of prescriptions dispensed
New
Renewed
Total
Prescription charge
Number of hours per week
Pharmacy was open
Worked by manager
Worked by employed pharmacist(s)

*Based on averages of pharmacies that reported all data

TABLE 12

Chain operations according to location

Downtown Business District (120 Pharmacies)		Neighborhood (168 Pharmacies)		Neighborhood Shopping Center (770 Pharmacies)		Regional Shopping Center (111 Pharmacies)		Medical Office Building (34 Pharmacies)	
$ 408,413	24.9%	$ 541,667	21.7%	$ 497,914	24.1%	$ 446,284	19.2%	$367,183	76.1%
1,230,270	75.1%	1,950,454	78.3%	1,572,199	75.9%	1,875,502	80.8%	115,037	23.9%
$1,638,683	100.0%	$2,492,121	100.0%	$2,070,113	100.0%	$2,321,786	100.0%	$482,220	100.0%
1,139,592	69.5%	1,801,620	72.3%	1,480,868	71.5%	1,648,400	71.0%	293,624	60.9%
$ 499,091	30.5%	$ 690,501	27.7%	$ 589,245	28.5%	$ 673,386	29.0%	$188,596	39.1%
$ 30,045	1.8%	$ 37,700	1.5%	$ 30,568	1.5%	$ 32,853	1.4%	$ 29,953	6.2%
156,591	9.6%	224,299	9.0%	184,896	8.9%	201,484	8.7%	45,111	9.4%
40,668	2.5%	51,890	2.1%	51,045	2.5%	66,457	2.9%	24,781	5.1%
17,571	1.1%	24,161	1.0%	24,744	1.2%	24,987	1.1%	4,566	0.9%
31,595	1.9%	43,123	1.7%	31,309	1.5%	41,853	1.8%	5,099	1.1%
5,645	0.3%	7,018	0.3%	6,932	0.3%	7,127	0.3%	1,338	0.3%
30,940	1.9%	31,745	1.2%	36,054	1.8%	43,411	1.8%	1,903	0.4%
8,019	0.5%	14,676	0.6%	12,147	0.6%	11,860	0.5%	3,910	0.8%
7,684	0.4%	14,217	0.6%	11,808	0.6%	7,969	0.3%	3,970	0.8%
54,157	3.3%	54,617	2.2%	64,915	3.1%	58,465	2.5%	17,349	3.6%
30,369	1.9%	36,899	1.5%	37,462	1.8%	41,299	1.8%	29,596	6.1%
11.3%		9.1%		10.9%		10.1%		14.0%	
$ 413,284	25.2%	$ 540,345	21.7%	$ 491,880	23.8%	$ 537,765	23.1%	$167,576	34.7%
$ 85,807	5.3%	$ 150,156	6.0%	$ 97,365	4.7%	$ 135,621	5.9%	$ 21,020	4.4%
$ 37,564	9.2%	$ 43,480	8.0%	$ 40,231	8.1%	$ 38,545	8.6%	$ 39,993	10.9%
193,356	15.7%	280,276	14.4%	258,162	16.4%	274,295	14.6%	50,939	44.3%
$ 230,920	14.1%	$ 323,756	13.0%	$ 298,393	14.4%	$ 312,840	13.5%	$ 90,932	18.9%
5.0 times		5.8 times		5.1 times		5.4 times		3.2 times	
sq. ft.		sq. ft.		sq. ft.		sq. ft.		sq. ft.	
371	$1,133.28	438	$1,225.60	412	$1,136.31	481	$899.76	542	$677.01
5,857	214.91	7,605	249.77	8,696	177.02	8,400	222.32	865	133.06
6,228	285.46	8,043	344.78	9,108	290.86	8,881	332.18	1,407	342.75
	$10.87		$12.46		$12.38		$11.58		$9.18
	6.36		6.96		6.09		6.84		2.26
	$0.372		$0.464		$0.326		$0.434		$0.231
18,747	49.3%	26,878	54.5%	24,189	51.9%	21,432	52.0%	16,971	54.0%
19,313	50.7%	22,463	45.5%	22,409	48.1%	19,777	48.0%	14,463	46.0%
38,060	100.0%	49,341	100.0%	46,598	100.0%	41,209	100.0%	31,434	100.0%
	$10.73		$10.98		$10.69		$10.83		$11.68
	76 hours		82 hours		83 hours		80 hours		55 hours
	46 hours		46 hours		46 hours		46 hours		44 hours
	66 hours		83 hours		72 hours		79 hours		30 hours

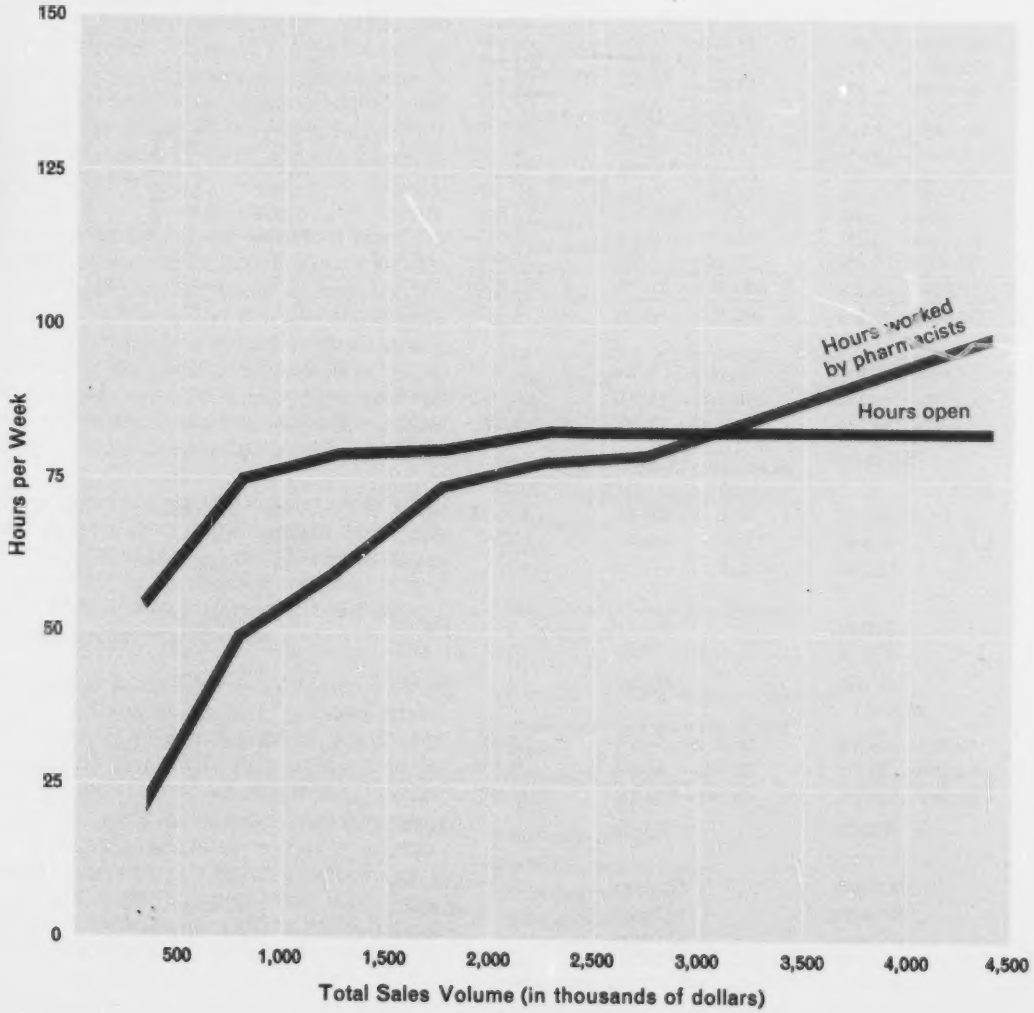
Pharmacy Hours

Earlier editions of the NACDS-LILLY DIGEST have described a trend toward longer business hours with a growing annual sales volume. A similar pattern was observed in 1983, as shown in Chart 10; however, pharmacy units with annual income over $3,000,000 were open the same number of hours as stores with approximately half the sales volume. When data submitted for this year's DIGEST were compared with those for 1982, there appeared to be a slight decrease in the number of hours open per week among operations with sales volumes less than $500,000, whereas stores with annual income above $500,000 were open about the same number of hours per week as previously reported.

As mentioned earlier in the section on "Prescription Department Review" (page 12), since more prescription activity is accompanied by an increase in total sales, a similar relationship can be expected between employed pharmacist hours and growing revenue. The data confirm this, since the number of hours worked by employed pharmacists peaked at 97 hours in stores with sales volume in excess of $3,000,000 (down from 98 hours in 1982). Hours worked by employed pharmacists did not exceed hours open until a sales level of over $3,000,000 was reached—reflecting the time spent by managers in the prescription department. In lower-volume units, pharmacist-managers are usually expected to work a full shift as well as attend to management functions. However, as sales increase, so does prescription activity, with the result that additional pharmacists must be employed to carry the heavier workload. Although the pharmacist-manager may also be needed to assist staff pharmacists during periods of greatest prescription activity, generally, more time is devoted to management duties as sales volume increases.

CHART 10

Pharmacy hours according to sales volume



Geographic Review

Any analysis which includes comparison of an individual unit's operating statistics with the averages published in the DIGEST should be tempered by such considerations as the cost of living, population density, ratio of pharmacies to population, buying power, pharmacy manpower, and state health programs. Tables 13 and 14 summarize the differences in operating figures according to geographic region. The geographic breakdowns are consistent with those of the U.S. Department of Commerce and, therefore, can be compared with published regional economic statistics.

The Pacific States continue to report the highest sales volume and average prescription charge (Table 13). Pharmacies in this region also recorded the lowest percent of prescription sales to total sales.

Chain units in the South Atlantic States showed the largest average prescription volume and the highest percent of prescription sales to total sales, which resulted in a relatively high gross margin as a percent of sales. During 1983, the New England States reported the longest business hours, and the East South Central Region posted the lowest average prescription charge.

Pharmacies in the Middle Atlantic States occupied the most floor space, whereas units in the West South Central Region posted the smallest. These stores also recorded the lowest number of employed pharmacist hours per week (47) of any region. Sales per square foot in the prescription department were largest in the Middle Atlantic States; in comparison, sales per square foot of "front-end" space were greatest in the Pacific Region. The South Atlantic States recorded the highest total sales per square foot of any region.

Net profit before taxes ranged from a low of 2.3% of sales in the East South Central States to a high of 6.9% in the Pacific States. In a comparison with 1982 data, the New England States showed the greatest improvement in net profit (up 0.8%)—the result of a higher gross margin accompanied by a lower total expense figure as a percent of sales. The East South Central States, however, reported the largest decline in net profit (down 1.2% to 2.3% of sales). Their decrease was caused by a decline in gross margin and an increase in total expenses, percentagewise. The increase in total expenses may be attributed, in part, to a significant rise in miscellaneous operating costs.

Table 14 provides an opportunity to compare pharmacy operating statistics in various regions. For individual store comparison, see the appropriate table in the "Heart of the NACDS-LILLY DIGEST." However, these reference data should be supplemented by a review of special tabulations, such as the "Geographic Review" section.

TABLE 13

Geographic summary of selected statistics

	Total Sales (in millions of dollars)	Number of Prescriptions (in thousands)	Percent of Prescription Sales to Total Sales	Net Profit (percent of sales)	Average Prescription Charge	Hours Open Weekly
New England States	$1.8	44.3	25.6%	3.7%	$10.26	84
Middle Atlantic States	2.3	59.5	27.4%	6.4%	10.79	83
South Atlantic States	2.2	62.6	30.0%	6.1%	10.63	77
East North Central States	1.9	44.4	25.7%	6.1%	10.97	83
West North Central States	1.8	35.8	23.4%	3.6%	11.53	79
East South Central States	1.2	34.6	28.3%	2.3%	10.18	78
West South Central States	2.0	39.4	20.6%	4.7%	10.51	73
Mountain States	1.9	44.6	26.0%	4.6%	11.30	83
Pacific States	3.5	43.0	14.5%	6.9%	11.84	76
U.S. Average	2.0	44.0	23.7%	5.1%	10.77	80

TABLE 14 Chain operations according to geographic location

AVERAGES PER PHARMACY	New England States (213 Pharmacies)		Middle Atlantic States (179 Pharmacies)		South Atlantic States (21 Pharmacies)		East North Central States (206 Pharmacies)	
Sales								
Prescription	$ 454,040	25.6%	$ 642,744	27.4%	$ 665,676	30.0%	$ 486,898	25.7%
Other	1,318,674	74.4%	1,702,890	72.6%	1,553,436	70.0%	1,408,005	74.3%
Total	$1,772,714	100.0%	$2,345,634	100.0%	$2,219,112	100.0%	$1,894,903	100.0%
Cost of goods sold	1,262,667	71.2%	1,652,416	70.4%	1,548,985	69.8%	1,337,895	70.6%
Gross margin	$ 510,047	28.8%	$ 693,218	29.6%	$ 670,127	30.2%	$ 557,008	29.4%
Expenses								
Manager's salary	$ 24,551	1.4%	$ 28,886	1.2%	$ 33,908	1.5%	$ 36,912	1.9%
Employees' wages	161,556	9.1%	174,790	7.5%	197,837	8.9%	164,808	8.7%
Rent	40,295	2.3%	58,813	2.5%	63,455	2.9%	46,620	2.5%
Utilities (including telephone)	20,995	1.2%	25,442	1.1%	18,869	0.9%	20,154	1.1%
Insurance, licenses, and taxes (except on profit)	25,481	1.4%	26,242	1.1%	43,594	2.0%	28,312	1.5%
Repairs	6,018	0.4%	10,546	0.5%	8,294	0.3%	6,987	0.4%
Advertising	30,577	1.7%	55,603	2.4%	42,532	1.9%	29,284	1.5%
Depreciation (except on buildings)	15,137	0.9%	11,998	0.5%	12,084	0.5%	8,307	0.4%
Supplies	12,463	0.7%	11,268	0.5%	3,779	0.2%	8,069	0.4%
Headquarters fee	72,285	4.1%	107,342	4.6%	61,729	2.8%	65,849	3.5%
All other direct store expenses	34,421	1.9%	31,356	1.3%	49,656	2.2%	25,749	1.4%
		12.3%		12.0%		10.8%		10.2%
Total expenses	$ 443,779	25.1%	$ 542,286	23.2%	$ 535,737	24.1%	$ 441,051	23.3%
Net profit (before taxes)	$ 66,268	3.7%	$ 150,932	6.4%	$ 134,390	6.1%	$ 115,957	6.1%
Warehouse fee*	$ 24,321	2.0%	$ 43,975	2.3%	$ 16,897	0.9%	$ 28,961	2.1%
As a percent of cost of goods sold		2.8%		3.1%		1.3%		3.1%
Value of inventory at cost and as a percent of sales								
Prescription	$ 39,937	8.8%	$ 46,557	7.2%	$ 52,390	7.9%	$ 41,468	8.5%
Other	235,150	17.8%	281,867	16.6%	253,529	16.3%	197,614	14.0%
Total	$ 275,087	15.5%	$ 328,424	14.0%	$ 305,919	13.8%	$ 239,082	12.6%
Annual rate of turnover of inventory		4.8 times		5.2 times		5.1 times		5.7 times
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	496	$922.88	383	$1,396.49	578	$1,152.33	390	$1,238.54
Other	6,463	206.17	10,542	194.57	5,710	296.78	7,799	182.41
Total	6,959	257.27	10,925	236.76	6,288	375.43	8,189	232.68
Sales per dollar invested in inventory								
Prescription		$11.37		$13.81		$12.71		$11.74
Other		5.61		6.04		6.13		7.13
Net profit per dollar invested in inventory		$0.241		$0.460		$0.439		$0.485
Number of prescriptions dispensed								
New	22,262	50.3%	29,788	50.0%	26,489	42.3%	23,014	51.8%
Renewed	22,012	49.7%	29,761	50.0%	36,136	57.7%	21,385	48.2%
Total	44,274	100.0%	59,549	100.0%	62,625	100.0%	44,399	100.0%
Prescription charge		$10.26		$10.79		$10.63		$10.97
Number of hours per week								
Pharmacy was open		84 hours		83 hours		77 hours		83 hours
Worked by manager		47 hours		44 hours		44 hours		46 hours
Worked by employed pharmacist(s)		72 hours		71 hours		79 hours		73 hours

*Based on averages of pharmacies that reported all data

West North Central States (124 Pharmacies)		East South Central States (143 Pharmacies)		West South Central States (201 Pharmacies)		Mountain States (27 Pharmacies)		Pacific States (89 Pharmacies)		U.S. Average (1,203 Pharmacies)	
$ 412,975	23.4%	$ 352,117	28.3%	$ 414,119	20.6%	$ 504,175	26.0%	$ 509,478	14.5%	$ 473,647	23.7%
1,348,513	76.6%	892,109	71.7%	1,598,612	79.4%	1,437,142	74.0%	3,003,939	85.5%	1,521,719	76.3%
$1,761,488	100.0%	$1,244,226	100.0%	$2,012,731	100.0%	$1,941,317	100.0%	$3,513,417	100.0%	$1,995,366	100.0%
1,219,109	69.2%	888,420	71.4%	1,483,395	73.7%	1,366,060	70.4%	2,556,085	72.8%	1,424,453	71.4%
$ 542,379	30.8%	$ 355,806	28.6%	$ 529,336	26.3%	$ 575,257	29.6%	$ 957,332	27.2%	$ 570,913	28.6%
$ 32,173	1.8%	$ 29,494	2.4%	$ 32,923	1.6%	$ 35,136	1.8%	$ 42,687	1.2%	$ 31,827	1.6%
172,935	9.8%	122,216	9.8%	189,137	9.4%	186,518	9.6%	309,391	8.8%	177,318	8.9%
49,551	2.8%	37,756	3.0%	48,983	2.4%	60,842	3.1%	76,318	2.2%	49,768	2.5%
19,903	1.2%	20,057	1.6%	25,227	1.3%	22,070	1.1%	24,976	0.7%	22,277	1.1%
30,195	1.7%	23,769	1.9%	39,206	1.9%	30,649	1.6%	66,768	1.9%	32,141	1.6%
5,755	0.3%	3,598	0.3%	1,688	0.1%	7,430	0.4%	10,089	0.2%	6,192	0.3%
34,539	2.0%	24,052	1.9%	13,915	0.7%	36,785	1.9%	54,622	1.6%	33,055	1.7%
11,722	0.7%	5,542	0.4%	11,158	0.6%	11,682	0.6%	19,128	0.5%	11,507	0.6%
8,527	0.5%	8,101	0.7%	12,561	0.6%	6,808	0.4%	17,578	0.5%	10,725	0.5%
58,140	3.3%	19,581	1.6%	25,702	1.3%	44,163	2.3%	44,882	1.3%	58,050	2.9%
54,894	3.1%	33,178	2.7%	34,612	1.7%	43,411	2.2%	48,118	1.4%	35,956	1.8%
	12.8%		11.1%		8.2%		10.5%		8.1%		10.5%
$ 478,334	27.2%	$ 327,344	26.3%	$ 435,112	21.6%	$ 485,494	25.0%	$ 714,557	20.3%	$ 468,816	23.5%
$ 64,045	3.6%	$ 28,462	2.3%	$ 94,224	4.7%	$ 89,763	4.6%	$ 242,775	6.9%	$ 102,097	5.1%
$ 15,334	1.0%	$ 35,290	5.5%	$ 62,958	2.8%	$ 16,345	1.4%	$ 12,148	3.5%	$ 32,417	2.4%
	1.4%		7.7%		3.8%		2.0%		4.9%		3.3%
$ 40,796	9.9%	$ 33,667	9.6%	$ 36,256	8.8%	$ 43,807	8.7%	$ 37,157	7.3%	$ 40,011	8.4%
233,956	17.3%	191,813	21.5%	239,635	15.0%	239,709	16.7%	411,317	13.7%	244,605	16.1%
$ 274,752	15.6%	$ 225,480	18.1%	$ 275,891	13.7%	$ 283,516	14.6%	$ 448,474	12.8%	$ 284,616	14.3%
	4.6 times		4.1 times		5.4 times		4.8 times		5.9 times		5.1 times
sq. ft.		sq. ft.		sq. ft.		sq. ft.		sq. ft.		sq. ft.	
400	$1,032.81	404	$881.32	408	$899.76	610	$825.91	376	$1,353.26	424	$1,162.48
8,392	160.70	6,657	108.22	4,965	228.50	6,742	213.18	10,046	299.03	7,501	197.58
8,792	200.36	7,061	152.48	5,373	279.52	7,352	264.06	10,422	337.11	7,925	243.90
	$10.12		$10.46		$11.42		$11.51		$13.71		$11.84
	5.76		4.65		6.67		6.00		7.30		6.22
	$0.233		$0.126		$0.342		$0.317		$0.541		$0.359
16,783	46.9%	18,370	53.1%	22,442	57.0%	23,095	51.8%	26,001	60.4%	22,882	52.0%
19,022	53.1%	16,233	46.9%	16,957	43.0%	21,525	48.2%	17,027	39.6%	21,085	48.0%
35,805	100.0%	34,603	100.0%	39,399	100.0%	44,620	100.0%	43,028	100.0%	43,967	100.0%
	$11.53		$10.18		$10.51		$11.30		$11.84		$10.77
	79 hours		78 hours		73 hours		83 hours		76 hours		80 hours
	48 hours		46 hours		45 hours		46 hours		44 hours		46 hours
	82 hours		50 hours		47 hours		79 hours		86 hours		70 hours

Review by Pharmacy Classification

Table 15 provides a summary of selected operating statistics of chain outlets according to store classification. The distribution of classifications for the units submitting figures for 1983 was as follows:

Bantam	25.2%
Traditional	44.3%
Super	19.5%
Supermarket	2.8%
Other	8.2%

The first four categories of operations are shown in Table 15. Bantam stores reported the lowest annual sales volume and the highest share of prescription sales to total sales. These stores also had the highest gross margin and total wage package figure percentagewise. Outlets in this group posted the smallest floor area and fewest pharmacy hours open per week. They also recorded the lowest inventory turnover rate as well as the lowest sales per dollar of total wage package. In addition, these units showed the highest share of renewed prescriptions to total prescriptions dispensed and had the highest average prescription charge. Such statistical characteristics suggest that bantam chain pharmacies are neighborhood or community-oriented operations with an emphasis on customer service. The higher inventory value as a percent of sales and low turnover rate also indicate that these stores maintain "breadth of line" in keeping with their customer-service orientation.

The traditional class of chain pharmacy closely resembles that of the average chain operation shown in Table 1. In comparison with stores in the bantam group, the traditional unit recorded higher total sales. However, gross margin was lower but was offset by a lower total expenses figure as a percent of sales, which resulted in a higher net profit. Units in this class tended to be larger in size and somewhat less labor-intensive.

A review of the operating statistics for the super chain units suggests that these outlets are "self-serve" types of operations that merchandise to the impulse buyer. In support of this assertion, stores in this category reported the highest annual sales, largest floor area, and longest hours open when compared with the bantam and traditional operations. Superchain units reported the lowest gross margin percentagewise and the lowest share of prescription sales to total volume as well as the highest total sales per dollar of total wage package. These units also recorded a higher inventory turnover rate and a greater share of new prescriptions dispensed than either the bantam or traditional outlet.

Supermarket stores showed the lowest share of prescription sales to total income and the lowest total wage package as a percent of sales. They also posted the lowest gross margin figure percentagewise. However, total expenses were sufficiently low to generate the highest net profit among all store classifications. These units had the most productive floor area and recorded the highest total sales per dollar of total wage package expense. Outlets in the supermarket group reported the greatest share of new prescription activity and the highest number of prescriptions dispensed per pharmacist hour worked. From this information, it appears that the supermarket operation is a "super-extended" type of chain pharmacy outlet.

Within the "other" category, there was a very small sample of stores that fell into the mass merchandiser classification. However, the sample size was too small to be statistically significant and, therefore, is not included in the data in Table 15.

TABLE 15

Chain operations according to store classification

AVERAGES PER PHARMACY	
Sales	
Prescription	
Other	
Total	
Cost of goods sold	
Gross	
Expenses	
Total wage package	
Rent	
All other	
Total expenses	
Net profit (before taxes)	
Value of inventory at cost and as a percent of sales	
Annual rate of turnover of inventory	
Size of area (square feet)*	
Prescription	
Other	
Total	
Total sales per square foot	
Total sales per dollar of total wage package expense	
Number of prescriptions dispensed	
New	
Renewed	
Total	
Prescription charge	
Number of hours per week	
Pharmacy was open	
Worked by manager	
Worked by employed pharmacist(s)	
Prescriptions dispensed per pharmacist hour worked	

*Based on averages of pharmacies that reported all data

Bantam (303 Pharmacies)	Traditional (533 Pharmacies)	Super (234 Pharmacies)	Supermarket (34 Pharmacies)
$ 431,444— 34.9%	$ 475,263— 24.5%	$ 583,142— 16.8%	$ 435,485— 13.6%
806,546— 65.1%	1,464,534— 75.5%	2,883,044— 83.2%	2,754,312— 86.4%
$1,237,990—100.0%	$1,939,797—100.0%	$3,466,186—100.0%	$3,189,797—100.0%
854,299— 69.0%	1,375,569— 70.9%	2,532,890— 73.1%	2,377,287— 74.5%
$ 383,691— 31.0%	$ 564,228— 29.1%	$ 933,296— 26.9%	$ 812,510— 25.5%
$ 144,148— 11.6%	$ 210,697— 10.9%	$ 327,159— 9.4%	$ 258,769— 8.1%
31,379— 2.5%	48,775— 2.5%	81,755— 2.4%	60,664— 1.9%
154,079— 12.5%	213,141— 11.0%	319,665— 9.2%	267,278— 8.4%
$ 329,606— 26.6%	$ 472,613— 24.4%	$ 728,579— 21.0%	$ 586,711— 18.4%
$ 54,085— 4.4%	$ 91,615— 4.7%	$ 204,717— 5.9%	$ 225,799— 7.1%
$ 184,483— 14.9%	$ 274,997— 14.2%	$ 435,472— 12.6%	$ 402,913— 12.6%
4.6 times	5.0 times	5.8 times	5.9 times
372	418	495	494
4,392	8,076	12,683	9,179
4,764	8,494	13,178	9,673
$259.86	$228.37	$263.03	$329.76
$8.59	$9.21	$10.59	$12.33
19,671— 49.2%	23,262— 52.7%	29,229— 53.7%	24,572— 57.3%
20,314— 50.8%	20,864— 47.3%	25,187— 46.3%	18,279— 42.7%
39,985—100.0%	44,126—100.0%	54,416—100.0%	42,851—100.0%
$10.79	$10.77	$10.72	$10.16
77	82	83	80
46	45	46	42
57	73	93	45
7.5	7.2	7.5	9.5

Two-Year Comparison of the Same Pharmacies

Table 16 offers a summary of selected operating statistics of 857 chain units that submitted figures for both 1982 and 1983. The right-hand column includes 346 stores that sent data to the NACDS-LILLY DIGEST for the first time.

The two-year comparison indicates that the cost of goods sold declined as a percent of sales, which sent gross margin up. However, a rise in total expenses, as a percent of sales, was just enough to offset the increase in gross margin, with the result that net profit remained unchanged. Although net profit was the same percentage figure as for the previous year, it did show a 9.4% increase in dollars. The operations that participated for two years reported a slight increase in the number of prescriptions dispensed and demonstrated an upward trend in the average prescription charge, which rose 14.7%.

The chain units that did not sent in figures previously reported a slightly higher sales volume but a lower gross margin as a percent of sales. Total expenses, however, were lower than in the two-year group and, as such, were sufficient to generate a higher net profit as a percent of sales. Fewer prescriptions were dispensed, and the average prescription charge was higher than in the two-year group.

TABLE 16

Summary of operating figures in pharmacies reporting two years and one year

AVERAGES PER PHARMACY	857 Pharmacies Reporting Both Years 1983	1982	Amount and Percent of Change	346 Pharmacies Reporting Only in 1983
Sales				
Prescription	$ 490,376— 24.7%	$ 425,251— 22.9%	+$ 65,125—15.3%	$ 432,212— 21.4%
Other	1,495,317— 75.3%	1,427,725— 77.1%	+$ 67,592— 4.7%	1,587,112— 78.6%
Total	$1,985,693—100.0%	$1,852,976—100.0%	+$132,717— 7.2%	$2,019,324—100.0%
Cost of goods sold	1,411,318— 71.1%	1,319,562— 71.2%	+$ 91,756— 7.0%	1,456,986— 72.2%
Gross margin	$ 574,375— 28.9%	$ 533,414— 28.8%	+$ 40,961— 7.7%	$ 562,338— 27.8%
Expenses				
Manager's salary	$ 30,064— 1.5%	$ 28,289— 1.5%	+$ 1,775— 6.3%	$ 36,195— 1.8%
Employees' wages	177,130— 8.9%	168,863— 9.1%	+$ 8,267— 4.9%	177,781— 8.8%
Rent	51,252— 2.6%	49,039— 2.6%	+$ 2,213— 4.5%	46,092— 2.3%
Other operating costs	215,195— 10.9%	195,181— 10.6%	+$ 20,014—10.3%	196,799— 9.7%
Total expenses	$ 473,641— 23.9%	$ 441,372— 23.8%	+$ 32,269— 7.3%	$ 456,867— 22.6%
Net profit (before taxes)	$ 100,734— 5.0%	$ 92,042— 5.0%	+$ 8,692— 9.4%	$ 105,471— 5.2%
Number of prescriptions	45,874	45,633	+ 241— 0.5%	39,244
Prescription charge	$10.69	$9.32	+$ 1.37—14.7%	$11.01

In Conclusion

The 1984 NACDS-LILLY DIGEST reflects certain reversals in previously established trends and confirms the direction of others in the chain pharmacy industry. Again this year, total sales volume showed improvement; however, net profit declined slightly, both in dollars and as a percent of sales. This was, essentially, the result of a downtrend in gross margin and an increase in total expenses as a percent of sales.

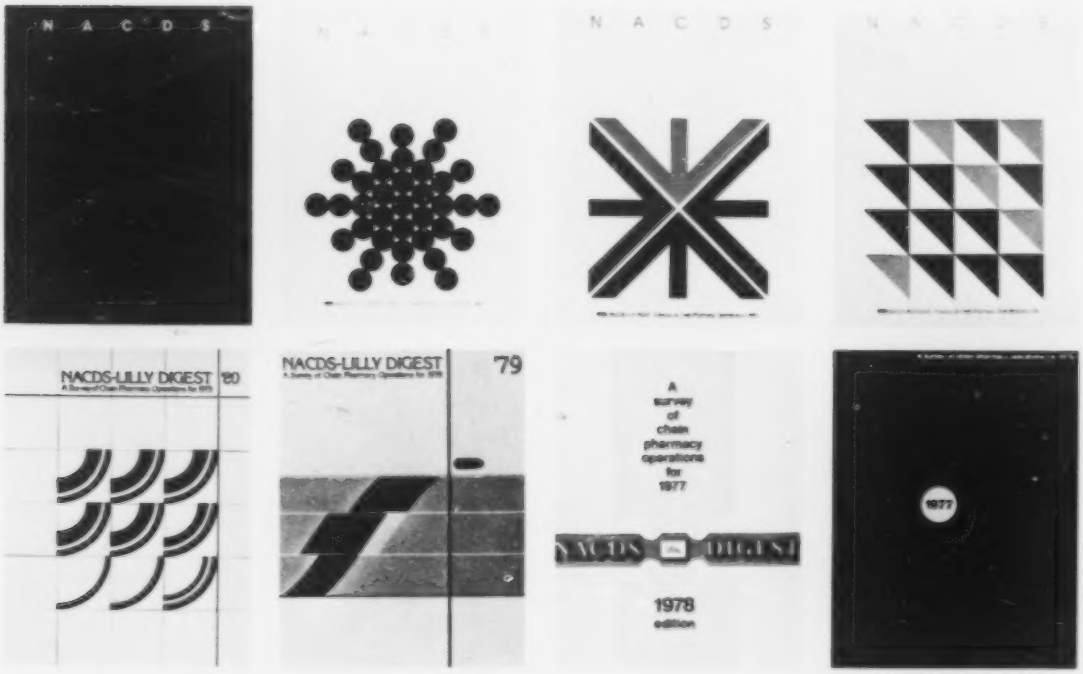
The trend toward higher operating costs is expected to continue and, therefore, makes it a priority for chain managers to monitor their unit's operating statistics, evaluate these figures against goals and industry averages, and initiate appropriate action suggested by such analysis. It is through such cost-control procedures that profits can be retained as capital and utilized to fund planned expansion.

It is hoped that the NACDS-LILLY DIGEST will provide one tool which can be used effectively by chain managers in their review process. Comparison with similar operations should assist managers in their decision making and provide a means for a realistic appraisal of a firm's performance.

For immediate submission to the NACDS-Lilly Analysis Service, forms are now available upon request from:

Lilly Analysis Service
National Association of Chain Drug Stores, Inc.
P.O. Box 1417-D49, Alexandria, Virginia 22313

NACDS headquarters will again send out forms early in 1985 for participation in the 1985 NACDS-LILLY DIGEST.



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